

Stephen J. Blank

CHALLENGING THE NEW WORLD ORDER: THE ARMS TRANSFER POLICIES OF THE RUSSIAN REPUBLIC

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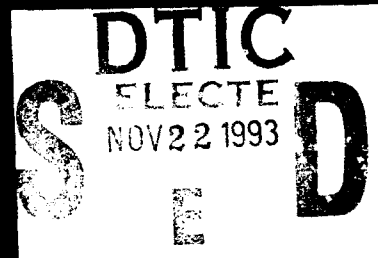
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CHALLENGING THE NEW WORLD ORDER:
THE ARMS TRANSFER POLICIES
OF THE RUSSIAN REPUBLIC

Stephen J. Blank



Approved for public release

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Final Report

Challenging the New World Order:
The Arms Transfer Policies of the Russian Republic (U)

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The author considers Russia's program of conventional arms and nuclear technology exports in terms of the domestic and international security ramifications of that policy. After introducing some of the dangers that a virtually unrestricted arms sales or transfer program poses for the sellers, he analyzes the impact of these sales on Russia's domestic politics and economics. The author traces the confirmed reports of nuclear transfers and their impact on both domestic and foreign policies. He then examines the nature and repercussions of Russian arms sales abroad, in particular to India, Iran, China, the members of ASEAN, and the two Koreas. The author concludes with a somber warning of the risks, foreign and domestic, posed by these sales, and offers a number of recommendations for the United States to consider in dealing with this problem.

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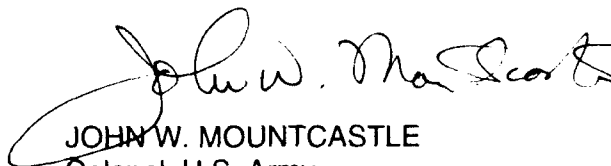
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FOREWORD

Since the collapse of the Soviet Union in 1991, the disposition of its weapons, both conventional and nuclear, and of its military technologies has been a great concern at the highest level of U.S. policy. One particularly troubling aspect is Russia's newly proclaimed arms sales and technology transfer program. Begun in 1992, it concerns the U.S. policy community due to the target of the sales and the nature of the weapons and technologies being transferred. This report assesses the importance and nature of that policy both for Russia's own defense industrial program and for international security, particularly in Asia where most of the sales have taken place.

The study is intended to raise questions and stimulate discussion over these issues by highlighting the seriousness of the stakes involved for both Russia and the wider global community. There is no doubt that an unrestricted arms sales program will materially affect Russian interests, but even more directly it will affect the interests of U.S. allies and U.S. forces, especially air and naval forces. The Strategic Studies Institute is pleased to contribute to the debate over this important issue affecting Russian and global security.



JOHN W. MOUNTCASTLE
Colonel, U.S. Army
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SUMMARY

Along with its radical economic reforms, Russia announced a new arms sales policy in early 1992. This concurrence shows the faith Moscow has in its military industry to compete abroad for foreign currency. More than that, however, is the fact that a revived and state-supported arms sales program has touched off a bruising internal struggle among the Ministries of Foreign Trade and of Defense, and the military-industrial complex (MIC), i.e. defense industrialists and managers, to control the program. This report assesses the direction and character of the arms sales and military technology transfer program and its implications for both Russia's domestic politics and for its own and global security. Thus the study focuses first on the internal debate and then moves to consider atomic transfers, and then provides case studies of arms sales to key buyers, mainly in Asia: Iran, India, China, South Korea, and the members of ASEAN.

This assessment not only points to the intense bureaucratic struggle going on to control the program's revenues and direction, it also strongly suggests that the state is losing or forfeiting its ability to control the program and the MIC. All signs indicate a gradual loosening of the controls established by the state and the specialized agencies under the Ministry of Foreign Trade due to pressure from the MIC. This pressure for maximally unrestricted arms sales also points to the intention to use the revenues garnered from arms sales to avert true conversion and instead to modernize defense industry plants. The contention to control arms sales and the revenue involved is intimately connected to the struggle to determine Russia's future defense industrial policy. The MIC wants freedom from restrictions, but also great state support and protection, while the ministries have now adopted a policy of picking and protecting vertically and horizontally integrated "winners" who can compete abroad. Either way the result is a protected defense industrial sector with disproportionate leverage in the councils of state. The defense industry will be able to elude

civilian democratic control and could reproduce an authoritarian model that in many ways resembles South Korea under the generals or Spain under Franco (as admitted by the Ministry of Defense).

The most recent and potentially sinister aspect of this struggle is the disclosure that the Defense Ministry is setting up a corporation, with MIC support, expressed through MIC lobbies, to sell arms independently of the Ministry of Foreign Trade and its subordinate agencies. This is an example of collusion to avert civilian control and to give the Ministry of Defense independent access to private sources of capital without accountability. Thus, current developments of the arms sales program manifest several strongly negative trends that will, if unchecked, inhibit Russia's democratization, political and economic demilitarization, and free market reforms.

Turning to foreign aspects of the program, one also finds little to rejoice about. Claims by industrialists of what they could earn if allowed to sell arms abroad without restrictions are vastly inflated. But at the same time, private and unaccounted or unverifiable sales are going on. This corruption is frequently tied to nuclear materials and technology transfers. But the official activity in the nuclear field is disturbing enough, since Russia is transferring such items to Iran, China, and possibly South Korea, for almost nothing except barter. The Ministry of Atomic Energy is particularly interested in these transfers. Through its transfers and "sales" abroad, the Ministry is creating close ties with foreign buyers that could lead it to an unhealthy dependence on them or to foreigners' access to cut-rate nuclear sales.

Conventional arms sales to Iran, India, China, South Korea, North Korea, and ASEAN also demonstrate the inflated claims of the MIC concerning returns on sales. These sales also reflect the Russian government's use of arms sales, not so much for the economic benefits garnered thereby, but rather for political reasons. These are: keeping Central Asia quiet with Iran, maintaining close ties to India, developing partnerships with China as well as with South Korea against Japan in Asia, etc.

At the same time, this pursuit of arms sales also shows a mindless quality because Russia is aggressively selling arms to these same major customers' potential rivals in the Gulf, North Korea, and ASEAN members. Thus, these arms sales contribute greatly to regional insecurities and proliferation of both conventional and atomic systems, and are even reducing Russian security, most visibly in the North Korean case where earlier Soviet transfers to Pyongyang helped the latter build its nuclear bomb and new intermediate range ballistic missile (IRBM) that is capable of targeting much of Asiatic Russia.

These systems, however, do not only threaten neighboring states of the buyers. Obviously they could be used against American interests, or those of our allies. For instance, many systems now being sold make up the basis for integrated anti-carrier task force defenses or anti-ship missiles against CVBGs, or anti-aircraft systems against U.S. air forces. Thus Russia's arms sales program threatens Russian security and democratization, as well as nonproliferation efforts, and both the interests and forces of the United States and its allies. Continuation of this overall program, therefore, suggests deep-rooted and persisting obstacles to the true reintegration of Russia into a democratic family of nations. For this reason the author makes the following recommendations that should pertain to any U.S. effort to influence and eventually restrict these sales. The U.S. Government should:

- continue its support for overall reform and demilitarization of Russian politics;
- encourage joint ventures between U.S. and Russian defense industries that would to some degree be subject to U.S. laws;
- invigorate the talks on mutual or multilateral self-regulation of weapons sales along the lines of the Missile Technology Control Regime (MTCR);
- demonstrate a willingness to impose sanctions required by U.S. law, even those that harm U.S. businesses, as a last resort to violators of the MTCR.

CHAPTER 1

INTRODUCTION

In early 1992 Russia inaugurated an extensive arms sales policy that has since expanded considerably with support from President Yeltsin, Prime Ministers Gaidar and Chernomyrdin, the Ministries of Foreign Trade (MVES), Defense (MOD) and Foreign Affairs (MFA), and the military-industrial complex (MIC). Russia is competing for markets in East Asia, the Middle East, Eastern Europe, and in new areas like Chile and even South Africa. This depth of support, as Russia concurrently undergoes major economic reform, shows that Russia retains confidence in its defense industry's quality. Increasingly, high officials view arms sales as the way to overcome the state's failure to fund and develop defense conversion, i.e., production for the civilian market by private owners under free market rules. That failure to convert the defense industry has brought that industry to its knees. However, the arms sales policy alternative poses strong domestic and foreign policy challenges to Russia's democratization.

Building a democratic Russia and integrating it with the West are the most exacting challenges of the post-cold war order. Russia's political orientation is that order's decisive test. Arms sales to almost any customer greatly challenge that order. They reopen the dangers of extensive Russian involvement in foreign conflicts, weapons proliferation, and of MIC dominance over domestic policy. Indeed, the critical issue for domestic policy is whether the state or defense industry controls arms sales policy. And the state appears to be losing this crucial battle to demilitarize Russia's economy and impose civilian, democratic, fiscal control over the defense industry.

Arms sales policy measures Russia's willingness to facilitate peaceful conflict resolution and regional stability abroad. It also gauges whether and how Yeltsin and the reform movement can curb the excessive influence of the MIC on

politics and economics. Extensive state-sponsored arms sales can only revive production facilities, fund and sell a steady stream of competitive weapons and technologies, regenerate military-industrial influence upon policy and key political institutions, and allocate vital resources to that sector wherever receipts from the arms sales formally go. Indeed, defense modernization under the guise of conversion is the purpose of arms sales despite earlier claims that the money would go to house Russian officers and soldiers. In short, this program aims to revive military industry and its intimate association with the state, albeit under a formally "capitalist" or "market" economy.

The issue is not whether Russia should sell arms. In the real world it would be foolish and churlish to deny that opportunity to Russia. Rather, we argue that sellers' and producers' claims are false, belied by their actions, and inimical to *democracy security and international stability*.

Abroad, insufficiently controlled conventional and nuclear arms transfer policies contributed much to Soviet Russia's greatest international crises: Cuba, China, and the Middle East; and even to wars where its troops participated: Korea and Afghanistan. As a general rule the steady provision of arms, spares, and technicians led and leads suppliers to depend upon recipients to maintain their influence. States receiving foreign arms could start a crisis or war that could involve or affect their suppliers against the latter's better judgment and vital interests. In the Taiwan crises of 1954-55 and 1958 and the Indo-Chinese war in 1962, Mao expected Soviet political and military support just as Taiwan did from the United States, its patron and arms supplier. In these cases, Moscow's failure to support China and risk serious crisis, if not war with the United States or India, helped cause the Sino-Soviet rift that created a second cold war in Asia.

In the Middle East, Soviet arms sales to the PLO, Egypt, and Syria from 1955 to 1989 contributed to the Arab-Israeli wars. Those arms sales exacerbated Israeli fears of attack or of armed support for guerrilla raids from Syria and Egypt and enabled Syria and Egypt to start the Yom Kippur War in 1973. These arms sales and ensuing bilateral accords also led Syria

to demand strategic parity with Israel, a policy that reinforced Israel's determination to maintain superiority. Syria's Defense Minister, Mustafa Tlas, frequently said that Syria aimed to start a war that would force the USSR to enter it, an outcome that Moscow came to dread. The Soviets feared Syria could lead them into a major war that was clearly against Soviet interests.¹ Similarly, Soviet arms shipments encouraged Iraq to begin wars in 1980 and 1990. But those shipments did not greatly benefit Moscow, which now has an unrecoverable \$86B debt since Soviet subsidies and credits covered their cost.²

New arms sales or dual-use technology transfers could plunge Russia into future crises. Past nuclear technology transfers to North Korea may yet provoke a major international crisis if the Democratic People's Republic of Korea (DPRK) continues to obstruct International Atomic Energy Agency (IAEA) inspection and progress towards a settlement with South Korea. Other risks stemming from arms sales are equally conceivable. Large-scale arms sales cement ties between both states' elites or interest groups. One state or its elites could then corrupt the other's elites or political process as happened in Cuban-Soviet relationships in the 1980s.³ In the past, large-scale sales or transfer of arms to aggressive regional powers created dynamic regional imbalances among Third World states that led to long regional wars involving superpower "proxies" or clients, e.g., in Angola and Nicaragua. Third World states' emphasis on buying arms stimulates regional insecurities and arms races, and diverts productive socio-economic resources to warfare. In Africa, local governments even spent Soviet economic aid on arms, not productive investment.⁴

Should Russia lose total control over arms sales, other possibilities for abuse and ensuing domestic and foreign crises would arise. Private control of state assets could lead (and allegedly has led) to unsupervised sales to aggressive states like Iran and China. Large-scale arms transfers also create domestic lobbies which can deflect the state from its real interests. The desire of producers to retain influence abroad, maximize their gains, or amortize expensive armaments is well known.⁵ At home, large-scale arms transfers exclusively on

behalf of private interests give the MIC a disproportionate power continually to extract state political and economic resources as happened in 1992.

Continued arms sales that violated the Missile Technology Control Regime (MTCR), which Russia said it would uphold even though it is not a member, jeopardized lucrative U.S.-Russian cooperation in space research, and threatened the imposition of U.S. sanctions mandated by law for violations of the MTCR. In the end Russia had to bow to U.S. pressure on those sales which greatly antagonized India.⁶

In short, a high volume of Russian arms sales would likely diminish prospects for domestic democracy and international "good behavior." Nonetheless, high officials say the arms trade and demand for Russian air, air defense, missile, and infantry weapons in particular are growing. Officials increasingly defend the policy as being a national interest.⁷ Accordingly, it is necessary to determine this policy's implications for Russia's domestic and international posture and for the United States. We will focus first on the process, motives, and organization of arms sales policy and then on case studies of transfers to major recipients of arms from programs begun under Gorbachev but continuing under Yeltsin.

CHAPTER 2

ARMS SALES AND RUSSIAN POLITICS

As implied above, the direction and pace of demilitarization and conversion are crucial barometers of the direction and quality of Russian reforms. In addition, whoever controls the sale of arms will have direct control over the funding of the Russian defense industry's conversion and modernization, as well as direct access to foreign currency. For these reasons, the struggle to control arms sales policy and obtain the capital necessary for conversion and modernization is a crucial process affecting both defense policy and overall industrial policy. Therefore, Russia's program of arms sales and technology transfers has also been an area of intense policy conflicts involving the MVES, MFA, MOD, the MIC, the agencies set up under the MVES to sell and advertise arms, and top policymakers. All these players are attempting to maximize their control over arms sales and garner the institutional, political, and economic power to realize their interests. Because the bureaucratic and political struggles continue, the ultimate outcome of contention between agencies and industry for control on the one hand, and among rival government agencies on the other, remains moot. But while these conflicts are murky, one can trace their direction and ultimate implications.

Indeed, it is easier to analyze the implications of the struggle between industry and the government or among rival agencies than actually to chronicle them. Ultimately, two basic options exist for the MIC. First, defense industrialists may gain factual control over sales, selling whatever and to whomever they want, thereby setting back genuine civilian control by established government agencies. Fierce rivalry for markets will then lead to an "accelerated sell-off" of arms to anyone having currency. At the same time, the MIC will organize for and demand state subsidies and protection. Given the

uncertain state of Russian politics and the government's need for support where it finds it, the government likely will yield to those pressures thereby creating an overbuilt defense industry with severe and inherent redundancies and inefficiencies. Indeed, there are some signs that this process is already underway.

Deputy Defense Minister Kokoshin, Foreign Trade Minister Sergei Glazyev, and President Yeltsin's conversion advisor, Mikhail Maley, favor a second alternative: a large-scale vertically organized military-industrial system with state support for relatively few designated high-tech and dual use technology producers who have shown success in the market. They will be the "locomotive" of Russia's overall industrial recovery, especially in electronics, communications technology, and cutting edge systems. Naturally, the state will protect and subsidize these cartels. That system, too, will re-create a somewhat different version of the protected relationship between the MIC and the government that formerly existed since cartels require these subsidies and protection. Alternatively, should the MOD and not the MVES gain control of this program's regulatory machinery, that outcome will certainly preclude civilian control of the MIC and lead to a similar structure under MOD control.

The MOD has set up an agency to monitor defense exports, gain funds, and rival the MVES and the semi-public sales organizations. It is switching to a contract relationship with suppliers where it will be the sole client, and it hopes for more direct control over the pace, direction, quantity, and quality of production. On the other hand, to the degree that other rival ministries like the MVES win out, they will have a privileged position and will exercise more influence over domestic and defense policies. Thus the structural linkages among the defense industry, its captains, the government, and the economy are the crucial issues at hand.

In a detailed analysis of the bureaucratic maneuvering around arms sales, Charles Petersen concluded that by mid-1993 the MFA had abandoned its effort to frustrate arms sales, a position to which it had adhered out of principle early in 1992. Instead, it now campaigns publicly for Russia's arms

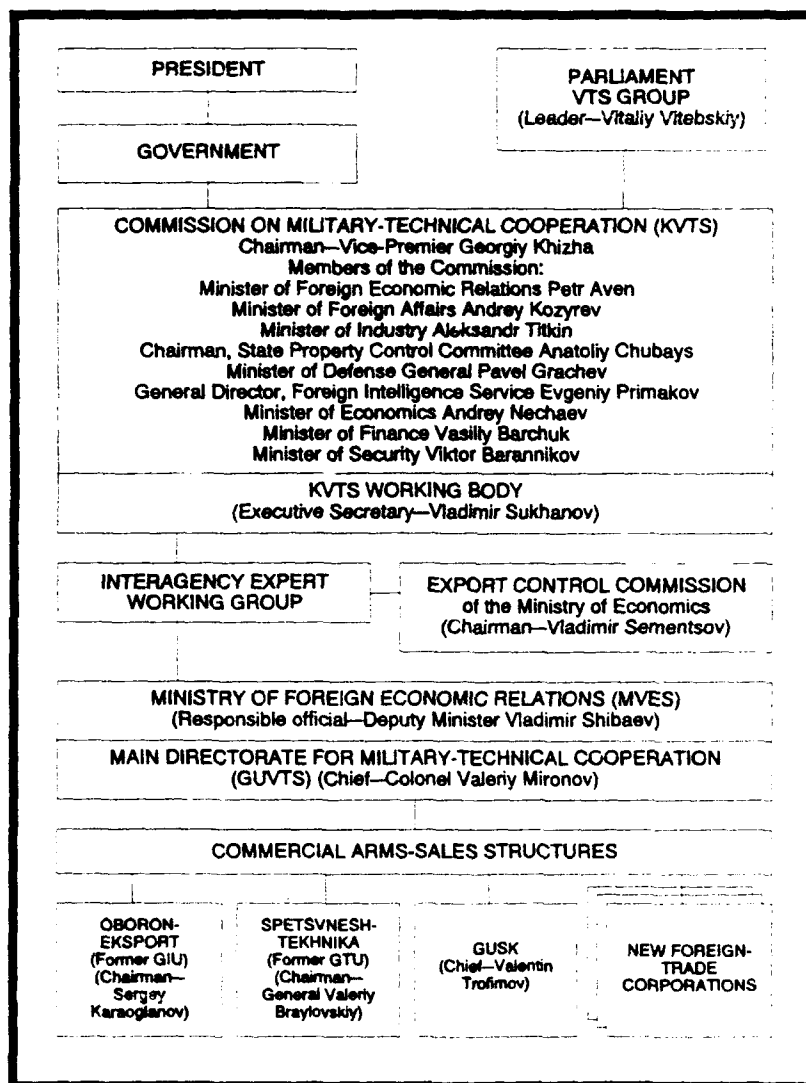
producers. Many of Foreign Minister Kozyrev's trips, like those to the Gulf in 1992-93, are openly intended to solicit purchases.⁸ In addition, the MIC lobby appears to be winning over the MVES. The MIC (and the MOD) deeply resents the MVES effort to regulate arms sales policy by restricting sales and charging higher prices, as well as its cumbersome and formalistic bureaucratic regulations. Therefore it is constantly challenging the statutory right of the MVES to control prices and sales, and has sought direct access to buyers and freedom from restrictions. More importantly, it wants to control the entire process of sales and derides the ministry's "torpor."⁹ Meanwhile, the MOD also seeks free access to world markets to dump surplus weapons without competition. This ambition puts it at odds with the MVES. The MOD equally bitterly resents the MVES' control over the process which it blames for loss of sales. The MVES fears losing control over arms sales and the MIC fears competition from producers who can undersell it further. For example, in Russia's initial approach to sell arms to Malaysia, 18 different competitors turned up in Kuala Lumpur, an undisciplined competition that almost lost Russia the deal.¹⁰

Though the MIC has won a significant position; it still must contend with the MVES. As arms sales developed in 1992, the government set up three ancillary "commercial structures" in MVES to oversee them. These are *Oboroneksport*, GUSK (Main Directorate for Collaboration and Cooperation), and *Spetsvneshtekhnika*.¹¹ Typically, these agencies have crossed departmental or bureaucratic lines and we cannot distinguish the functions of one from the other. However, their creation and activity have stopped neither the MOD nor the MIC pressure for unrestricted dealings with customers or for displaying ever more advanced components like lasers, cruise missiles and even dual-use technologies for chemical weapons intended for Libya.¹² From all accounts the MIC's pressure is strong, steady, and increasingly successful.

Already in March 1992, Yeltsin granted defense enterprises in the heavily militarized Tula region free access to foreign markets. This practice has steadily grown since then to encompass other firms and regions.¹³ The only limit would be

the government's list of what may be exported. This grant created a precedent that stimulated others to demand similar freedom. It now appears the government cannot fully control the flow of arms abroad. In addition, the concession to the Tula region and those since then signaled government's willingness to share power with the MIC, an unprecedented move that also made part of the government an advocate of unrestricted arms sales despite a contradictory policy from other state organs.¹⁴ The complex arms sales bureaucracy (see Figure 1) also could permit these corporations to form intimate "revolving doors" or "family circles" (mutual protection networks) with defense industrialists in a mutual search for profit, and become lobbyists even though they are semi-public organizations.¹⁵ In practice, therefore, the state's gradual acceptance of the need to protect the MIC's capability through arms sales falls somewhere between the two conceptual alternatives presented above. The MIC now receives protection and is gaining more if not total freedom to sell and its influence is growing. It probably will retain disproportionate access to government together with the ability to extort resources from it. Simultaneously, much of the MIC that cannot compete abroad may collapse due to misguided state policies, lack of funding and inputs, and its own resistance to change.

After mid-1992, Yeltsin yielded more ground, giving the Air Force the power to sell 1600 planes and decreeing that the corporation making the YAK-141 fighter (mainly a carrier aircraft) could negotiate and carry out a contract even before investing in a program!¹⁶ By November 1992, producers in Tula, Nizhny Novgorod, and Sverdlovsk had received similar dispensations. At the same time, GUSK was teaming up with the League of Defense Enterprises, a MIC lobby, to form a corporation to service products abroad.¹⁷ Although GUSK's contracts with the League and regional producers apparently had to gain government consent, the agency that reviewed them was headed by Deputy Premier Georgy Khizha, a self-proclaimed representative of the MIC until he was fired in April 1993 for opposing Yeltsin's call for a referendum. Beneficial as this system was to the MIC, it was too bureaucratic and cumbersome for some producers, who severely criticized it.¹⁸



Source: Charles C. Peterson, "The Russian Arms Bazaar: The Bureaucratic Players," Unpublished Paper, April 9, 1993, p. 8.

Figure 1. The Russian Federation's Arms-Sales Bureaucracy, As Organized by the Presidential Decree of May 12, 1992.

By the time Yeltsin returned from his state visit to India in January 1993, he was convinced that conversion was being carried out the wrong way and that arms sales needed protection.¹⁹ Immediately thereafter, a presidential decree was prepared to make it still easier for the industrialists to sell their weapons.²⁰ Contrary to expectations of \$10 billion a year that had been bandied about as a real target to fund conversion, the government revealed that Russia only earned just under \$2 billion in 1992 from arms sales. Accordingly, the current Foreign Economic Relations Minister, Glazyev, an advocate of arms sales, proposed that states with a debt-servicing capability who place large orders should be granted credit. He advocated that the government should subsidize the defense industrialists who produce the systems these states want, expand multinational R&D, and sell production licenses to third parties.²¹ To the degree that these proposals are accepted, they will result in a Russia suffering from insufficient foreign capital and investment subsidizing both its industrialists and states who can pay for the arms! It also will involve Russia in what amounts to giveaways of technological processes in return for arms sales. The decree on February 2, 1993, freed or clarified licensing regulations, making it easier for Russian firms to export.²²

But this did not stop the pressure for more deregulation. In April 1993, the Russian Defense Industry Commission, a second MIC lobby, proposed a system of exports where,

manufacturers will independently set prices, keep hard-currency earnings, choose between middlemen, and pay their commission fees. The Russian Defense Industry Commission is itself volunteering to handle the selection and licensing of firms to replace the Foreign Economic Relations Ministry.²³

At the same time, Russia's Ministry of Industry proposed conversion loans and subsidies to defense industries of 450 billion rubles to save them from cutting wages to the minimum, resulting in labor flight and total collapse.²⁴ Although this proposal encountered opposition within the government, it certainly reflects the pressures brought to bear by the MIC.

More was to come. New guidelines for reforming the system were approved on April 23, 1993. They resulted from a struggle among the Inter-departmental Commission on Military Technical Cooperation (ICMTC), the Russian State Defense Industrial Committee that represented the manufacturers (*Roskomoboronprom*), the MOD and the MVES. As part of this process the MVES agreed to cede the GUSK to the League of Defense Enterprises, and set up joint-stock companies with them and MVES to assuage their dissatisfaction (and also to rebut the MOD's efforts to cut itself in and restrict exports by others at the expense of readiness by creating its own monitoring organization).²⁵ This met the League's demand for the right to export independently and was a substantial concession.²⁶ The net results were to de-monopolize arms sales. That raises the possibilities for great corruption, e.g., by smuggling out contraband items like nuclear materials, and converting state officials into lobbyists for MIC firms who have no accountability to anyone. Thus, according to *Liberation of Paris*, "Nuclear materials are disappearing from the former Soviet states at an alarming rate, undermining assurances from officials that missing amounts are small enough to cause no real concern."²⁷

Undoubtedly, one powerful argument for these concessions was the fact that arms exports in 1992 accounted for over half of Russian exports to developing countries, and that overall military-technical exports made up one-third of total exports over the last few years. Moreover, in striving to keep its markets, the MIC calculated that 25-33 percent would be an upper target for exports.²⁸ But apart from the desire for cash, the MIC's desire to sustain its power base is a key motive. As Sergei Karaoglanov, chairman of *Oboroneksport*, said on March 4, 1993: "Commercial profit is not our sole aim. For us the priority in this endeavor is to retain the status of the Russian military industry. That is why we invest the major portion of profits in the military industrial sector."²⁹

The results of these bureaucratic and political maneuvers have turned up in other industrial sectors and in important foreign policy initiatives. At home the trend seems to point to the development of an intimate revolving door between the MIC

and the government, wherein the former has successfully lobbied for more control over its exports and government subsidies to cover its costs of conversion. Rather than go to housing officers, the bulk of the recovered proceeds go either directly or via the state to the defense industry to modernize its plant and to slow down the overall pace of conversion to true market relationships. In effect, within a new more overt interest-group politics, this particular interest group can still exercise disproportionate influence on the government and get both large subsidies and direct access to foreign currency. Although the relationship of industry to the MOD has greatly changed since the Soviet epoch, the primacy of defense industry's access to material benefits flowing from the state has apparently been restructured, not transformed or destroyed. Here we see the formation of a new overt form of interest group lobbying and politics and the possibility for MIC direct access to key domestic and foreign interest groups. Those ties offer growing possibilities for either corruption or mutual linkages between them as listed above. This examination allows us to trace both the domestic and foreign implications of Russian arms sales.

CHAPTER 3

THE NATURE OF THE DOMESTIC PROGRAM

Russia justifies its arms sales policy openly. Its reasons are: 1) the need for cash, 2) the need to keep production facilities, technicians, and scientists employed lest massive unemployment and falling investment ruin that sector and undermine readiness and technological competitiveness,³⁰ 3) leverage or influence over other states' politics,³¹ 4) resentment over the loss of markets, in particular to the United States which has sold \$6 billion in weapons to the Middle East alone since DESERT STORM and continues to do so,³² and, 5) the desire to reassert Russia's standing as a great power.

Public figures, for or against the policy, cite these goals to explain the general policy and specific transfers or sales to key strategic countries: Iran, India, China, Syria. In Iran, India, and China, Russia continues to sell arms or transfer potential military technology despite U.S. pressure.³³

But on the domestic side, the hidden agenda is to control defense industrial policy. For the MIC the objective is to control arms sales so it can regain the position it held under Soviet power, albeit in a vastly changed context. The government originally decided to maintain and modernize, if at reduced scale, the old military industrial complex and its technological base. And it wished, so it said, to control any arms transfer program, ostensibly to spend the proceeds on social infrastructure (housing) for officers, lest the military engage in self-privatization and usurp state control. In contrast, the MIC, in and out of government, has continuously coveted these revenues to modernize its plant rather than engage in conversion or stress social amenities. Increasingly this objective has been overtly proclaimed, even by government officials like Mikhail Maley or the agencies set up by the state

to sell arms. Thus, if arms sales are a prominent indicator of the struggle between the government and the MIC over the course of reform, the reform of the old military industry is failing.³⁴ Although some analysts maintain that formal state control, embodied in authority over licenses, gives the state control over enterprises and the MIC, the balance of opinion, already in 1992, contended that the MIC was winning the battle to emancipate itself from reforms and from control by Yeltsin and then Prime Minister Gaidar's government.³⁵ Our findings tend to agree with that observation.

Indeed, the more one reads of arms sales, the clearer it becomes that the proceeds will go to modernize plants and reflect MIC priorities. Nor will the MIC scrutinize its customers too closely. Clearly the struggle to revolutionize or democratize military policy is not over. Instead it probably is entering an acute phase. The present phase of this long struggle grows out of two basic errors made when dismantling the USSR in December 1991. These errors were the failure to place civilian leadership over the Ministry of Defense, and the failure to agree on defense policy among the republics prior to the hasty formation of the Commonwealth of Independent States. Failure to civilianize the MOD left the military with authority over military industry, and with links to industrial lobbies and ex-officers who now "head" private concerns to the MIC. The MIC and/or MOD can use those connections to block military and economic reform.³⁶ Nor is it entirely coincidental that the hue and cry demanding a renewed arms export program arose at the very moment of UN embargoes on favorite customers like Iraq and Libya that deprived the MIC of subsidies and customers. The second failure has led to acrimonious rows over who controls what forces, assets, and plants that have impeded meaningful military reform. It may not be accidental that Russia decided to produce and sell weapons, in part, to shield its own forces from "threats" from neighboring republics.³⁷

By all accounts the military industry faces imminent catastrophe due to conversion to a market economy. In 1992 alone, procurement was cut by two-thirds. Mass unemployment, bankruptcies, shutdowns, and falling investment are widespread. The resources available to the

government to counter this trend, despite its best efforts, subsidies and increased procurement in 1993, are nowhere near sufficient.³⁸ The MIC has effectively haunted the government with that threat of collapse in order to win the right to export arms and to get subsidies. But the reforms must break the old MIC to succeed and normalize Russian state life. A *sine qua non* of successful reform is economic demobilization. Professor Aleksei Yablokov, an advisor to President Yeltsin, observed that 75 percent of all firms in St. Petersburg and 50 percent in Moscow, as of January 1, 1992, worked for the military—this after years of supposed conversion.³⁹

Defense industrialists and their uniformed allies organized in 1992 to slow down, alter, or stop reforms and gain continued state support.⁴⁰ They view a state arms sales and technology transfer program as: 1) salvation in terms of cash and continuing funding of existing production lines and personnel, 2) a sign of their continuing political influence, 3) a roadblock to reforms that threaten them, and 4) a sign of Russia's great power position and competitive military profile.⁴¹ In alliance with labor unions, they have not hesitated to threaten the government with strikes. They continually maintain that not only do they face disaster, but also that they are the Russian industry's best and brightest who cannot be allowed to disintegrate, and that the so-called military economy is really a fiction. A sign of their success is evident in Kokoshin's recent remarks accepting the first half of this argument wherein he stated:

Our defense industry, when properly focused, is perhaps the main national resource of competitiveness in the area of industrial products (particularly scientific-intensive products) and services.⁴²

MIC leaders also claim that arms sales will finance conversion, which necessity they now claim to recognize. However there is good reason to suspect the MIC's "conversion" and its arguments. Nobody denies that the past conversion policy failed.⁴³ But while Western analysts, civilian and uniformed military reformers in Russia, and Yeltsin view past policy as an attempt at a "non-conversion" that left the military economy largely intact, MIC members and officers

charge the state with failure to devise and fund a coherent policy.⁴⁴ Although there is some truth to their claim, it is more likely that this argument is in support of their wish to use conversion to modernize.⁴⁵ One reason to suspect them is that many enterprises and managers still cannot function in a market environment.⁴⁶ Hence, they press for arms exports to obtain capital and salvage as much as possible of the old military economy. Many military industrialists still believe that conversion must be a planned, state directed and supported action or policy.⁴⁷ Although one can sympathize with their travails, such views betray a fundamental incomprehension of market economics. While Yeltsin acknowledges the need to preserve capabilities and gain capital and influence abroad, he and the reformers wished to use arms sales to civilianize the military economy. But MIC representatives argue that they must only produce for that sector, and only incidentally for the civilian economy.⁴⁸ Some even supported dumping arms abroad while pursuing technological innovations.⁴⁹ Another so called MIC "leader" stated:

Politicians' intervention in the arms trade should be minimal: they should just elaborate general guidelines. Specialists—defense workers and diplomats—should decide to whom to sell and for how much. The main thing is to not do damage to yourself by arming possible geopolitical rivals, to not supply weapons to the "hotbeds," and to bring maximum profit to Russia.⁵⁰

In setting up a state program, Yeltsin acceded to this pressure even as he tried to turn the proceeds to conversion, demilitarization, and social amenities, and to assume gradual control over arms sales. He and his colleagues understand the risk they are taking in enhancing the MIC's resources and power and in postponing the demilitarization of the economy which is essential to the success of reforms. Mikhail Maley told the Congress of Arab businessmen in 1992 that the new policy, "far from curtailing the manufacture of military hardware, will be building it up." In this concept of conversion, industry has four years to convert while it tries to capture old and new markets and comply with international law by producing defensive weapons.⁵¹ In a later interview Maley did not dispute the reporter who said:

Simultaneously with the preservation and modernization of defense plants, defense consciousness is being preserved and modernized. The task of the demilitarization of the economy and also of the country as a whole is being postponed until the indefinite future or, quite honestly, being eliminated altogether.⁵²

Maley, in reply, also accepted the MIC's argument that it is the cream of Russian industry and science. Although he conceded that many cannot go over to market economics, nevertheless, he contended, this sector's leadership is gradually improving.⁵³

Yeltsin and his colleagues also have more urgent reasons to control Russian arms exports. Despite many decrees, officers and industrialists continue privately to sell military assets and weapons systems indiscriminately, even to combat zones like Nagorno-Karabakh and Abkhazia.⁵⁴ Such "privatization" could lead Russia into conflicts with other CIS members or further abroad, corrupt the defense establishment, and limit state control over military policy. As this sell off accelerated, the state had to attempt to take the action away from the privateers. But Yeltsin and top military leaders admit their failure to banish corruption which has become pervasive throughout the armed forces.⁵⁵

Yeltsin also has to control arms sales because of "privatization's" economic implications. Throughout the world too many arms producers and sellers are chasing too few buyers. World markets cannot sustain the level of purchases that Russian officials cited, \$15-30B a year for five years to pay for conversion, a figure whose extravagance is only equalled by its unrealism. Indeed, in 1992 Russia only made \$1.8-1.9 billion in actual receipts from arms sales, a figure showing the exaggerated MIC claims of huge potential sales. Those favoring government regulation of exporters argue that since other producers also are desperately seeking customers and bring intense pressure to bear on governments against competitors, massive unregulated Russian arms exports would depress prices and not ultimately benefit sellers.⁵⁶ Mikhail Bazhanov, Chairman of Russia's State Committee for Conversion, supports state sales precisely to prevent so called "commercial travelers" from triggering "frantic dumping" that

would cause stiff resistance from "the international arms market mafia." Russia could neither compete nor benefit in such a market of falling prices. Russia's early efforts to sell MiG-29s to Malaysia involved just this scenario when 18 different sellers descended at the same time upon Kuala Lumpur. Bazhanov wants a state-regulated process to avoid friction with rival suppliers, i.e., an arms trade cartel.⁵⁷

Yeltsin must also regulate arms sales to overcome the opposition to state regulation. Shibaev told the *Washington Post*: "Today many state-run producers are craving orders, and believe they will be able to solve their problems by selling off their military products independently."⁵⁸ Apart from the extravagant figure of \$30 billion a year for five years to finance conversion, other proponents fancifully claim that 40 percent of current defense production or systems on the shelf are globally competitive and "could feed and water" Russia, or at least the defense industry's dependents. Or else they maintain that if arms exports were removed from purely "departmental" control, i.e., MVES, and turned over to government as an issue of "state importance," i.e. MOD control, than Russia could sell \$30-32 million of arms annually.⁵⁹

Because none of these figures is remotely realistic, all these statements suggest the hidden agendas of the rival interests competing to control arms exports. For example, Air Force CINC General Petr Deynekin won the right for the Air Force to sell directly to customers, bypassing the export agencies under the MVES. He stated that the Air Force had full authority to realize its opportunities. Those structures that interfered (his word) with the Air Force received "some kind of unofficial earnings" from arms sales. Needless to say, they oppose the Air Force's competition.⁶⁰

According to Arkady Volsky, self-proclaimed spokesman of the MIC:

Privatization will never affect the entire defense industry. Only someone with a sick imagination can put forward the idea of privatizing a plant which produces atom bombs or the idea of privatizing a cosmodrome. Some proportion of the plants will be notionally privatized, in the form, shall we say, of turning them into joint-stock bodies. Plants producing both military and civilian

products will have to be partially privatized—primarily that part which produces the civilian products.⁶¹

In a related incident, a Defense Ministry official stated that the MVES trading office for arms, *Oboroneksport*, informed the MOD it could sell arms up to \$9-10 billion by 1994-95 to pay for housing and social infrastructure, with the money to be controlled in a special MOD fund. He mentioned arms sales to the PLO, Libya, Taiwan, South Africa, and Pakistan, among others. The MVES repudiated his statements about the fund being under MOD control, the destination of sales (though it confirmed there are or were negotiations with Taiwan, Pakistan, and South Africa), and the amount of revenue involved. The MOD's subsequent reply showed that *Oboroneksport* faces tremendous pressure from a veritable "orgy" of arms exporters, including the MOD and private merchants, who seek to gain control of the process even if it is formally under MVES regulation.⁶² The 1992 victories of the right wing on security policy, and the appointment of key members of Volsky's faction, *Civic Union*, who openly claim to represent the MIC, to important government positions on the Security Council, lends credence to that view. If the MIC controls defense personnel policy through the Security Council, it does not matter whether or not the state exercises formal control over arms sales.⁶³

The influence of the MIC lobby can also be found in the MVES since Glazyev assumed leadership at the end of 1992. Former Minister Aven strongly resisted the MIC, which roundly criticized the ministry for that and for red tape. Glazyev's approach is entirely different. He publicly outlined the change in policy in early 1993, after Yeltsin returned from India. Regarding arms exports, Glazyev recommended that Russia subsidize those states who can service their debts, although Russia itself cannot obtain hard currency and pay its debts.⁶⁴ This would be a major step down the old Soviet road of arms exports to states who could not or would not pay for them. Glazyev and the MVES also recommended relying principally on Third World trade and moving away from trade with the West, even though the latter has steadily grown over the last few years. Instead Russia should reorient its economy towards

multilateral offsets of mutual requests, barter, and even a new unit of payment that would counter Western currencies' pressure on the ruble.⁶⁵ Thus, the MVES supports diverting the Russian economy away from the industrial "North" to states like China, Vietnam and the "South."⁶⁶

At home Glazyev and the MVES advocate creating large financial-industrial groups of joint-stock companies which can export competitive products abroad, including arms. These firms will be technologically related, vertical collaborations of enterprises, research organizations, trade firms, banks and investment firms—a kind of monster conglomerate that would supposedly concentrate resources in the most efficient way to produce competitive goods, including weapons systems, for the world market. He criticizes the current privatization policy because it will break down these structures rather than promote this form of industrial concentration.⁶⁷ The cartellization policies he seems to be calling for appear contrary to current economic wisdom that small entrepreneurial firms are the true locomotive of progress. But more than that, such giant oligopolies would reintroduce trends towards "administered prices" and state intimacy with the MIC. MVES officials admit openly that this approach smacks of protectionism and paternalism, and entails a revision of privatization and the anti-monopoly policy that would breakup the old MIC. Indeed, these policies appear to resemble the structural practices of Japan's *Keiretsu* and South Korea's *Chaebol*. They also resemble very closely Kokoshin's proposals for defense industry. Aerospace design bureau leaders are also advocating an essentially similar solution for their industry: a consolidation of plants, research facilities, and design bureaus on a regional basis, including integration of the industry using a "common business structure."⁶⁸

That this approach is heir to Soviet and Tsarist gigantism is certainly not by accident even if there were no collusion. Rather, this approach betrays an adherence to traditional models of industrial organization and relationship with the state as well as a common perception of interest. In addition, the policy favored by Glazyev, Bazhanov, Kokoshin, Maley, and other policymakers reflects the crystallization of the other

alternative if arms producers and designers do not get a free hand to deal directly with arms buyers and instead undergo some form of state regulation.

This cartellization and vertical integration coupled with state support and regulation would likely foster a lasting and intimate relationship between state officials and entrepreneurs. It would resemble other military-industrial relationships of subsidies, protection from competition and the rigors of the civilian market, and the revolving door of officials and industrial managers. By all accounts, this system has vastly increased procurement costs and remains a constant cause of concern that the organizations linked thereby could usurp democratic procedures. In Russia, where democracy is much more fragile and industrial gigantism and state domination are deeply rooted traditions, such a relationship is reason for more than a little concern. As Kokoshin describes it, his version came out of the joint efforts of the Academy of Sciences, the MOD, a number of enterprises, and research institutes.

It is based on the idea of creating powerful, diversified industrial-financial complexes based on leading defense enterprises with the state's comprehensive support. A permanently operating conference with heads of leading defense enterprises has been established within the framework of the Ministry of Defense on problems of creating those financial-industrial complexes capable not only of supporting Russian Federation Armed Forces needs for modern arms and military equipment and preserving and restoring mobilization capacities, but also of becoming locomotives which will give impetus to the dynamic, progressive development of Russia's entire economy.⁶⁹

Kokoshin concedes, however, that many enterprises, design bureaus, and research institutes will for a long time "be gravitating" towards being government enterprises.⁷⁰ He recognizes the risks involved because he admitted later that the present situation often demands of the MOD short-run decisions that may not only not correspond to a sensible long-term development strategy, but even contradict it. Accordingly, as long as the state and economy are not functioning normally, a long-term development plan is out of the question.⁷¹ Unfortunately, this short-term solution he

proposes will create strong vested interests in its perpetuation, probably last well into the long term, and work against precisely the kind of reforms Russia needs for the long term. As he acknowledged earlier, it was a model for states like Spain and South Korea as they made the long transition to democracy and market economics.⁷²

Maley, too, advocates selecting a few joint-stock companies of mixed private-public capital to bring arms producers together with their market and to protect them as they seek to compete globally.⁷³ A.N. Shulunov, President of the League of Defense Industrial Enterprises, also likes the idea of the South Korean model. And, he openly states his objectives for defense industry and his relation to the ongoing reform program:

In my opinion the sole panacea for us today might be to impose stiffer state regulation over economic processes. What we propose to the state leadership today together with Vladimir Ispravnikov, the head of the Supreme Economic Council under the Presidium of the Russian Supreme Soviet, conflicts with many postulates of privatization a la Chubays [the architect of privatization—SB], and with certain legal and quasi-legal acts.⁷⁴

But Shulunov, too, admits that even now the old vertical structures have remained intact, ironically, as intended by the government reforms creating superministries and state committees overseeing defense industry. Thus Russia still cannot surmount the status quo and still has 75 percent of its national economic potential concentrated in Group A (defense and heavy industry) enterprises.⁷⁵ Why Maley's and Kokoshin's plans creating a visibly protected oligopoly should fundamentally alter this state of affairs is nowhere explained.

Therefore, essentially two models of relationship are being proposed as the defense industry tries to emerge from Russia's economic crisis. On the one hand we have the cartellization, vertical integration, and state regulation approach, and on the other, producers clamoring for a free hand to export at whatever prices they can in order to win market share and hard currency now. Those two alternatives are, of course, abstract constructions or policy models. In reality, it appears that

government restrictions and regulations are being substantially eased, though not abolished. And key policymakers are advocating protection, cartelization, and vertical integration of giant firms who can compete in a market economy. Regardless of the economic benefits of either one of the two models, politically the combination of gigantism and oligopolistic organization of the arms industry under conditions of minimum government regulation and a high degree of government protection offers Russian democracy and its imperative of a demilitarized polity the worst of possible worlds.

Another consequence of this policy appeared in July 1993. A large group of Russia's top arms makers formed a consortium to raise capital at home and abroad through joint ventures to finance, research, develop and promote the export of the latest weapons systems. This firm, *Russkoe Oruzhie*, (Russian Weapons) manufactures the T-80 MBT, BMP-3 APC and the S-300 B antiaircraft system. The firm's main focus will be army and navy hardware: armored vehicles, self-propelled artillery, antiaircraft, ammunition, surface vessels, and submarines. The MOD backs the firm and while its founders claim they will not engage in arms sales and infringe on MVES agencies, the latter are very skeptical. They suspect the MOD of trying to cut into the arms export business for itself. Certainly the MOD is already creating an independent committee of its own made up of MIC directors to revive production and has set up trading corporations restricted to dual use technologies like trucks. Thus there is reason to believe that a MOD-MIC coalition, comprising at least part of the latter, is forming to compete with the MVES and establish an independent channel of access to foreign currency, free from civilian controls and the MVES.⁷⁶ That would lead to further opportunities for abuse of the arms sales program and corruption. But, more importantly, it reinforces the trends towards too close a tie between the MOD and MIC cartels which are thereby protected from public scrutiny and accountability.

Finally, an examination of the issues of arms sales, conversion, and the relationship of defense industry to the state must also take notice of the curious situation developing in the relationship between the oil industry and the MIC. Maley,

Kokoshin, and Prime Minister (and former Energy Minister) Chernomyrdin all support a state program of import substitution for the fuel and energy complex using defense industrial production capacities.⁷⁷ Sergei Chevardov, an Assistant to Kokoshin, told a Western audience:

Russian enterprises, government ministries, and foreign companies should, to the maximum extent possible, include Russian defense sector enterprises in major oil and gas extraction projects, and refinery or petrochemical plant construction and modernization. Defense enterprises could produce a significant amount of the equipment for oil and gas extraction, transportation, refining, and petrochemical processing. Part of this equipment could also be exported.⁷⁸

Maley admitted that reorienting the defense industry to civilian needs is impossible without reviving arms exports and that hitherto the defense industry produced about 20 percent of the equipment for the oil industry.⁷⁹ Finally, in February 1993, Interfax reported that the military had suggested selling weapons, especially to the Middle East, i.e., Gulf states, to finance oil development.

Citing this report, Maria Kielmas, writing in *Middle East International*, observed that since military control over the oil industry is growing, it is in an excellent position to make oil for weapons deals.⁸⁰ It is odd that the MIC and MOD, which indicate they want arms sales to fund conversion and modernization, now want to use them to finance the recovery of the energy sector. This seeming contradiction needs to be explained. One explanation of this sudden shift from wanting the funds to pay for conversion might be the facts revealed by Vladimir Salo, of the Ministry of Economy's Defense Complex Economy and Conversion Department. After echoing the common view that the defense industry will go under without emergency measures, he revealed that his Ministry had drawn up a program of 450 billion rubles in loans and subsidies to make up the lag in wages due to inflation and depressed orders affecting the defense industry. But despite the seeming need for this program, there are those in Yeltsin's Presidential Council, academicians, and the energy industry who strongly oppose it, with the latter making strenuous efforts to get the

subsidy.⁸¹ One may speculate that the defense industry and ministry's sudden interest in financing the recovery of the energy complex is driven by their desire to get that subsidy and maintain their hold over the energy industry by supplying it directly in rubles and production from their domestic subsidies and foreign currency they earn on exported weapons. These machinations expose the power an oligopolistic or unregulated but protected defense industry could gain over other vital economic sectors with serious implications for civilian control, market economics, foreign relations, and the defense industry's relationship with the state.

CHAPTER 4

RUSSIAN POLICIES RELATING TO ARMS EXPORTS

A final and pervasive justification for arms sales abroad is the great disillusionment with and resistance to Western, mainly U.S., efforts to restrict the export of know-how and technology, whether in uranium, space stations, or actual weapons. Russia regards this as a U.S. effort to stifle competition and cripple Russian economic power.⁸² For this reason Marshal Shaposhnikov wrote Yeltsin in January 1992, urging arms sales because falling military production would "begin irreversible processes and entail the disintegration of this very important sector and cause considerable damage to chemical, metallurgical, and machine building sectors."⁸³

Today it is by no means clear what the state will sell to whom and how. Indeed, recent reports strongly suggest that Russia will literally sell to anyone, including the United States and NATO, although there have been conflicting statements concerning those questions.⁸⁴ Tracing the destination of actual or proposed arms exports is very difficult. Hardly a day passes without a report, confirmed or not, that arms are being sold to one state or another, or are being funnelled to belligerents in various wars. Russia is aggressively selling weapons systems, particularly, but not exclusively, high-performance aircraft, the MIG 31, MiG-29 and SU-27 fighter, at arms shows in Paris, Dubai, and Singapore. Russia is also exhibiting, for the first time, submarines and combat ships.⁸⁵ Despite statements by Yeltsin, Rutskoi, and Kozyrev to the contrary, Russia already is also arming potential regional rivals. In the Middle East, Russia supplies many kinds of arms to Iran and sells weapons to Gulf states that feel menaced by Iran.⁸⁶ Cyprus and Turkey, too, are discussing purchases or have bought various arms.⁸⁷ While Vice-President Rutskoi discussed future arms sales with Israel, Admiral Chernavin reassured Damascus about

continuing arms sales in September 1991, arms have since been sold to Syria and delivered in 1992, and further discussions are continuing.⁸⁸ Nor is this contradiction restricted to the Near East. Moscow has reorganized, and thereby reduced, its arms sales to North Korea so that they are for convertible currency. Naturally the currency requirement has depressed sales, but they do continue.⁸⁹ And, as described below, there is both pressure to increase sales as well as reports of unauthorized transfers. But such revelations come amid recent admissions that Seoul was interested in receiving two late-model SCUD missiles to pay off Russia's \$2 billion debt. Since then, a growing bilateral military cooperation has become public. Those missiles would allow South Korea to manufacture its own SCUDs.⁹⁰ That program also suggests that weapons will be transferred abroad to pay off Russia's staggering foreign debts, a very disquieting possibility in view of the amount of debt involved and the easy temptation to reduce it by weapons sales. Russia also is selling China, Malaysia, and India the high performance aircraft discussed in Chapter 6 and there is talk of selling again to Vietnam.⁹¹

Whether these reports indicate official policy, private or semi-private initiatives, trial balloons, or the diverse forces which are pushing military sales, is not always clear. Nor can one easily isolate which among these groups figures in these reports. The many different descriptions of the formal structures and processes involved in state arms sales apparently reflect the many players in this game and the diverse pressures on the Russian government. The following incident illustrates the difficulties involved in controlling military assets. On March 16, 1992, the Far Eastern Military District received notice of the decree banning sales of the former Soviet MOD's property. But, strapped for rubles, it nonetheless sold a former top secret facility on its territory to local or foreign entrepreneurs to cover construction costs for 1985-90. This facility, 78 kilometers from China, was built to station SS-20 missiles and nuclear arms for possible use against China, though it was situated in a formally nuclear-free zone.⁹² In effect a corporate unit of the Russian armed forces, *acting on its own, sold a high-level strategic and intelligence asset for almost nothing.*

Such happenings make the organization and ultimate directions of the arms transfer policy crucial questions. Russian commentators know that if Russian arms end up in terrorists' hands or in dangerous states like Iraq and Syria there will be negative consequences. Nonetheless, there are many MIC complaints about losing market share, e.g., in Libya. And at least one analyst charged that it was the UN ban on arms sales to Libya that energized the MIC to press for an arms sales policy. Meanwhile it is clear there are efforts to circumvent the ban to Libya; e.g., there is a report of a sale of rocket fuel.⁹³ Russia also knows that technology and production capabilities available to many states have weakened the checks that superpower competition imposed on regional actors and would-be "Bismarcks."⁹⁴ Hence, officials fear that their own advanced conventional and/or mass destruction weapons may be used against the CIS.⁹⁵

Accordingly, high officials have often stated that Russia will actively participate in limiting those weapons' diffusion and shun past ideological considerations in transferring weapons abroad. Instead it will be guided by considerations of mutual advantage and profit, not unlimited credits.⁹⁶ That was the official policy; practice, as described below, is unfortunately rather different. So, too, is the shift from MFA efforts to ban weapons flows to troubled regions like the Middle East to its current frank shilling on behalf of defense producers. Kozyrev, on March 12, 1992, said:

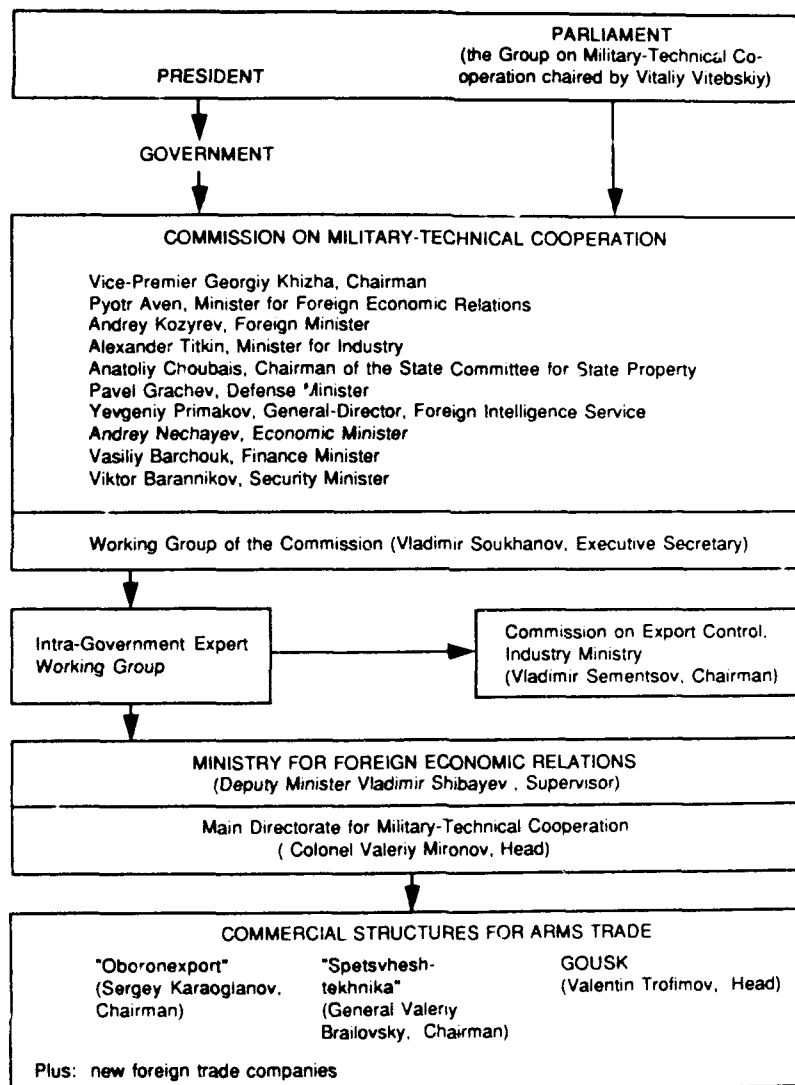
We are completely against the proliferation, the exacerbation of the arms race in the Middle East and Persian Gulf region, and believe that the United Nations—and in particular the Security Council—are the mechanisms which should react rapidly and effectively to such matters. The buildup of arms, especially destabilizing types of arms, must not be allowed to continue in this region which is already oversaturated with weapons.⁹⁷

In November-December 1991, Rutskoi and Kozyrev indicated that a system would be set up to revamp and continue arms sales and place them under effective state control.⁹⁸ But the new system is far less idealistic. Gennady Kochetkov, of the Institute for the Study of the U.S. and Canada, outlined the structure and process that existed as of 1992-93, shown in

Figure 2. Semi-state and/or private enterprises, e.g., *Oboroneksport*, will work directly with approved foreign customers, construct a deal, and then submit it to a special board of the MFA Committee for Foreign Economic Relations for state review for profitability, security and foreign policy. The committee will then issue appropriate licenses to the military industry to produce the munitions. A special parliamentary body exercises oversight over the committee and has the last word on all sales.⁹⁹

This process is supposed to ensure state control and parliamentary oversight. Since the decree on military-technical cooperation on May 15, 1992, this process has expanded still further. Yeltsin will decide on the conceptual approach to such cooperation and on cooperation with states not previously tied to Russia or on weapons not previously sold abroad, and their licenses. He also decides whether to continue or suspend cooperation with others. Russia's Interdepartmental Commission on this cooperation will then sell and license arms for export, monitor the sales and the activity of the MFA, MVES, MOD, the Foreign Intelligence Services, the Economics Ministry, and the General Staff.¹⁰⁰ Proceeds invested in conversion or modernization will be tax-exempt. Officials hope that this process will speed conversion and stimulate more deals with foreign firms.¹⁰¹ But given the decision to offer credits to key customers or to use proceeds for oil, and the other concessions concerning whom to sell to, it is unlikely that this is a static unchanging program. Turkey, Iraq, and Taiwan were excluded from sales because of security or political considerations. But that list has already been violated by the sale of helicopters to Turkey. And CNN has already shown Russian ships sailing up the Danube with supplies and fuel to Serbia, which is under a UN embargo.¹⁰² Similarly, rumors of an impending deal with Taiwan arouse fears that arms will still get to states like Cuba, Libya, or Iraq. After all, if Russia is willing to cross its ally, China, for pecuniary gains from Taiwan, why not sell to Iraq or Libya if they can pay for it? As one writer suggested:

We build better tanks, while they make better VCR's. So why should we invest millions into conversion, which would be an additional



Source: *Russian Arms Exports: Issues of Policy and the Linkage to Conversion of Military Industries*, CNA Occasional Paper, Alexandria, VA: Center for Naval Analyses, February 1993, p. 34.

Figure 2. The Restructured Arms Export Mechanism.

burden on our people? It could happen that we would forget how to manufacture good guns, and wouldn't learn to make good VCR's either. China, which is our closest rival in arms trade, uses a very pragmatic approach to arms sales. During the Iran-Iraq war China sold arms to both warring sides.¹⁰³

Since the military has considerable input into the organizations charged with making the transfers and sales, there will be a great impulse to conduct tax-exempt modernization via arms sales and call it conversion, especially since supporters place extravagant hopes upon arms sales as the defense industry's salvation.¹⁰⁴ Thus there is a great potential for military abuse of arms sales.¹⁰⁵ There also is the possibility that under the guise of foreign cooperation approved by Yeltsin and others, the MIC will evade reform. Examples of evasion could include swapping weapons for debt, agreements to co-produce and design, being a middleman supplying parts, and so on.¹⁰⁶ In this connection the recent agreement to produce weapons in India and jointly sell them abroad, discussed below, has interesting potential repercussions. And so does the nuclear protocol with China, also discussed below. In another case, three plants in Tula can now sell arms to Lithuania in return for foodstuffs and 30 percent of cost in hard currency, and a similar deal is to follow with Georgia.¹⁰⁷ Neither state can be counted truly secure and these sales could have disturbing consequences. Therefore, while Yeltsin tries to control the arms trade by civilian oversight, political and economic conditions are too unstable to give one confidence in that outcome.

Trends in arms sales policy therefore parallel those found in Poland and Czechoslovakia during 1989-92. As in those cases, in the first stage, 1989-91 in Russia and the USSR, a dramatic decline in military production took place amid spiraling inflation. This was the result of both domestic and foreign pressures unleashed by Gorbachev's *Perestroika*, *Glasnost'* and New Thinking. In the second stage the government tried to respond or adapt to the onset of global integration and decreased demand for weapons abroad by instituting reforms, e.g., Gaidar's reforms in 1992. Not only did defense production fall, state orders were cut by 67 percent in

1992 and foreign markets were subjected to great foreign pressure and competition. In the third and final stage, which began soon after Gaidar's reforms began to affect industry and the closure of sales to Libya and Iraq made their presence felt, the defense industry organized itself and placed sufficient pressure on the government so that it began to assist struggling defense industries with subsidies, sales promotion, etc. Nonetheless, the global trends towards increased worldwide production, decreasing demand at home and abroad, and intense foreign competition, could not be avoided.¹⁰⁸ Czechoslovak and Polish policies can be analyzed within this framework and sequence too. But Russia's size and unsettled internal and neighboring ethnopolitical conflicts give the MIC a strong argument for continued high production and exports despite the global trends, especially if Kokoshin's plan is implemented.

CHAPTER 5

FOREIGN AND NUCLEAR POLICIES AND ARMS SALES

Perhaps the most amazing foreign policy gambit to create a "political space" where Russia can sell arms abroad is the initiative of January-February 1993 directed to the United States. In the bilateral negotiations of early 1993 to establish a stronger regime that would oversee missile sales and the proliferation of missile technology, Russia charged that the United States had demanded a list of states that could buy from Russia and was attempting to place Russian business contacts *abroad under controls of internal U.S. legislation*. In addition the United States was discussing sanctions on Russia and Russian firms and design bureaus for selling cryogenic rocket technology to India.¹⁰⁹

Apparently this impasse stimulated Kozyrev to propose that the West allow countries buying arms to open their contracts to Russian competition with the West. The quid pro quo would ostensibly be conversion. The purpose would be to go beyond granting credits, aid, and strengthening the currency. Kozyrev admitted that this was another form of economic aid. Kozyrev warned that Russian arms suppliers were talking of providing systems up to and including strategic systems to suppliers and even attempting to deal with states against whom sanctions had been applied.¹¹⁰ Specifically, Kozyrev wanted U.S. guaranteed access to Middle Eastern markets to continue the embargoes against Iraq, Libya and similar states.¹¹¹ More to the point, he wanted an international cartel just as his colleagues want a domestic one to prevent unauthorized sales abroad and rescue the MIC, a goal that now is an MFA priority.¹¹² Since then little has been said and the U.S. policy community evidently remains leery of the plan. Nevertheless, prominent Russian analysts and perhaps policymakers believe that the United States and Russia, as part of their strategic

partnership, should cooperate bilaterally and multilaterally to act as would a cartel to regulate weapons and technology proliferation, especially missiles.¹¹³

Another disturbing fact is the sheer scope of Russia's arms sales program. The Air Force's right to sell 1600 aircraft is disquieting. And there are reports that one/sixth of the navy including battle cruisers, will also be offered for sale.¹¹⁴ Officials like Maley believe that in order for arms sales to fund conversion, the true purpose of the program—not housing—Russia must sell \$5-10 billion a year for at least 15 if not 30 years to make the \$150 billion estimated to be the cost of conversion. Merely to maintain the size of an industry needed to sell those weapons, and, leaving aside buyers' capacity to pay that kind of money in today's economic conditions in a market increasingly saturated by producers, means stopping conversion and civilianization of the war economy.¹¹⁵ For these reasons, it appears that the arms sales program, looked at from this angle, is but another in an evidently endless series of ruses whose purpose is to have a non-conversion.¹¹⁶ Or else conversion to an ostensibly market economy represents those MIC elements who favor modernizing through a corporatist type system of formal private ownership but heavy state direction, a system that they expressly compare to the Generals' South Korea or Franco's Spain.¹¹⁷

But the most disturbing possibility is the transfer of weapons or technologies of mass destruction. Reports of nuclear components or even systems that are generally covertly sold abroad are constant if unverifiable. They are especially prominent regarding Iran.¹¹⁸ It also appears that, at least at one time, control over some nuclear systems was degraded.¹¹⁹ And it is equally likely that as firms and enterprises elude government control that they will have more opportunities to sell or smuggle abroad. The fundamental problem, recognized by Russians and Westerners alike, is that Russia lacks a nonproliferation "culture" or mentality, in government and in business structures.¹²⁰ But a related problem that compounds the situation is that Kazakh and Ukrainian controls over dual use technologies and nuclear components are evidently not

unduly strict, and thus a degrading of controls over nuclear materials and dual use technologies is occurring in all three republics.¹²¹

Finally, both Western and Russian experts concur that the relevant government structure in Russia, namely the Ministry of Atomic Power and Energy, is growing in power and has a "grandiose" view of a future "plutonium economy" built on advanced reactors, and reprocessing plants that burn plutonium fuel. This concept is also reflected in Russia's recently adopted ambitious nuclear power program.¹²² Since this technological infrastructure exists nowhere, it means that a great deal of plutonium will be stockpiled. And it has become increasingly clear that it cannot be gotten rid of other than by export. Thus Lev Feoktistov, a member of the Russian Academy of Sciences, argues that impoverished Russia cannot afford to "throw away its plutonium," but was forced to concede that the mixture of plutonium and uranium Russia will sell could be extracted and used for nuclear weapons. Not surprisingly, the Ministry is on the offensive against both Western attempts to restrict sales and domestic critics, and strongly supports exports.¹²³ Moscow's recent and current policies of nuclear exports are causes for real concern, especially given the poor quality of its power industry.

Despite claims to the contrary, Moscow formerly exported rocket and missile technology, SCUD-B missiles, AS-4 and AS-6 anti-ship missiles, plutonium, and heavy water to Arab states, Brazil, and India.¹²⁴ Though Moscow claims it will not sell nuclear arms to the DPRK or anyone else not operating under IAEA supervision, it transferred valuable resources for that purpose to North Korea in the mid-1980s. Russian intelligence sources have apparently told South Korea they believe that the DPRK has secretly imported some 50 kilograms of plutonium from Russia.¹²⁵ And in November 1991, officials reversed prior statements that Russia would not make nuclear sales to countries whose plants are withheld from international inspection.¹²⁶ The government has also "egged on" Russia's large uranium industry, a long-standing international trader, to export aggressively.¹²⁷ While the U.S. Commerce Department replied to this by charging Russia and

other republics with dumping uranium, the republics still sell abroad.¹²⁸ And loopholes in Russian laws allow for abuse of the process.¹²⁹ Even though no proven illegal exports of uranium exist to date, Russia benefits from continued selling. Reporters for *Moscow News* wrote, "paradoxically the nuclear panic gains the attention of even the Russian government (since) under the threat of nuclear epidemic the West will be more willing to pay for conversion of the defense complex."¹³⁰ In short, uranium and other nuclear exports are useful to frighten the West into paying for conversion, an interesting side benefit of arms sales. A new, supposedly private corporation of ex-Soviet nuclear scientists, Chetek Corporation, is offering to sell the means to produce peaceful underground nuclear blasts. But who can stop them if they abuse that trust?¹³¹

Russia's long economic crisis could easily lead some to consider supplying nuclear exports for hard currency or valuable goods, to alter the structure of trade, or reduce foreign debt. Equally important will be the desire to reenter former markets or secure foreign influence.¹³² And new forms of export, like joint ventures, can occur, as in the case of Indo-Russian conventional weapons production and sales abroad. While to date there has been a general, if inconsistent pattern of restraint on nuclear exports, the international and national machinery to govern and monitor exports is quite rudimentary. Only on June 26, 1993, did CIS leaders agree to and sign a decree on the export of dual use materials and technologies.¹³³

Alarmingly, the trend is not benign, for in 1990-91 the USSR made the following commitments, discussions, or foreign sales of nuclear components:

- In 1990 it appeared ready to sell Pakistan—a nonsigner of the NPT and a nuclear aspirant—a nuclear power plant without requiring that it place all its facilities under IAEA inspection.
- Moscow was ready to supply India with two pressurized water reactors and possibly fast-breeder reactors despite Indian reluctance to accept safeguards.

- In April 1991, Moscow and Israel—another non-NPT state—discussed a possible sale of a Soviet nuclear reactor.
- Moscow was willing to sell Argentina—still another non-NPT state—heavy water to conclude a bilateral agreement in nuclear cooperation in breeder reactors.
- Continuing assistance to Cuba in the development of its first nuclear power plant, although Cuba too is a non-NPT state. Moscow may also have delivered a 10-megawatt research reactor using highly enriched uranium as fuel to Cuba.
- On Gorbachev's April 1991 trip to South Korea, the USSR expressed readiness to transfer "sensitive nuclear technology, including uranium enrichment and fast breeder reactor processes." The Soviet publishing house even produced an English language brochure of specifications for one of these fast breeder reactors.¹³⁴
- Moscow also resisted U.S. and German efforts to make inspection a condition of export at the NPT review conference and the Nuclear Suppliers Group meetings at the Hague in 1990.¹³⁵
- Finally, Iraq's successful defiance of world safeguards and standards until 1991, the lack of control over private suppliers, sellers' dominance in the world nuclear market, and the difficulties in monitoring systems, especially for chemical and biological weapons, illustrate and increase the potential dangers from Russian reentry into the world nuclear market. Recent discussions concerning Russia's nuclear deals with China and Iran can only heighten those concerns.

Russia and Iran have recently signed a nuclear cooperation agreement, as well as a broader pact on military cooperation, as part of their "strategic partnership." Moscow will help build a nuclear electric plant worth \$880 million, a nuclear research reactor, and train Iranian scientists in Moscow.¹³⁶ For the

power plant Moscow will deliver two nuclear reactors of 440 megawatts.¹³⁷ In general, Moscow says the arms sales program to Iran is of a defensive nature and is not for aggression against third parties, an argument that goes down very hard abroad.¹³⁸ But these forms of military cooperation are clearly part of the larger partnership whose overriding strategic goal is to stabilize the volatile Central Asian region and the Transcaucasus, a goal for which Moscow is prepared to pay handsomely in terms of arms sales.¹³⁹ Russian media also stress that Iran's nuclear intentions are peaceful, since it has not blocked IAEA inspection or rejected the nonproliferation treaty. Moreover, media reports have rejected the U.S. criticism of Russian and Chinese nuclear agreements with Iran as unwarranted charges against Security Council members.¹⁴⁰ But past experience indicates neither of these are insuperable obstacles to a nation bent on nuclearization.

Still more serious are the recently released terms of the nuclear accord with China. Russia will help build a nuclear power station in Liaoning province. To do so it extended China a \$2.5 billion credit at a 4 percent annual interest rate. China will use the credit, which covers 90-92 percent of the costs, to pay the Russian organizations involved in the construction. China will pay the remaining 8-10 percent in services, commodities, and cash. Russia will undertake all the work to commission the power station and carry out the first complete deliveries of nuclear fuel.¹⁴¹ According to Russian experts, three noteworthy details about this deal stand out.

First, the Russian leadership for the first time since the disintegration of the USSR has decided to build an AES (Atomic Energy Station) outside the country's boundaries, which points to its interest in supplying technology-intensive products and nuclear fuel abroad. Second, the Russian leadership in the context of a budget deficit has decided to extend an extremely large credit to a foreign state, which testifies to the Russian side's serious interest in this project. Third, Russia is even ready for an arrangement whereby China will be returning the credit granted to it for the construction of the AES not with "cold, hard cash" but with services which are to be specified in the course of further negotiations.¹⁴²

This deal also displays the ties being forged between the Ministry of Atomic Power and a foreign power, i.e. China, that redound to its interests but are certainly questionable for Russia's long-term security and immediate fiscal interest. It also marks another step in the return to the unsound Soviet practice of transferring platforms and/or their technology in return for credits and subsidies. Russia's atomic relations with India also reflect similar trends. In 1992, Russia advanced India an \$830 million credit to buy arms. As part of the documents signed in Delhi when Yeltsin visited in January 1993, there reportedly was an agreement linking India's Ministry of Atomic Energy with the MVES stipulating that Russia would help build an atomic energy plant in India with two energy blocks.¹⁴³ Not long before that visit there were unconfirmed reports that India was scouting around Central Asia for nuclear fuel.¹⁴⁴

Although Russia had refused to sell fuel without safeguards, the deals listed here with some of its best customers and its past record must cause serious concern. The only immediate beneficiary of these and similar deals (described in the following chapter) with India, Iran, and China in conventional systems is the MIC, of which the Ministry of Atomic Energy is a part. As such the Chinese deal in particular, although the Iranian one, too, is worrisome, and raises serious concerns not only for nonproliferation and regional security, but also about the developing political economy in Russia, particularly with regard to the MIC.

CHAPTER 6

CASE STUDIES: INDIA, IRAN, CHINA, SOUTH KOREA, ASEAN

Russia's most prominent customers are India, Iran, and China. Its general goals in these sales were discussed previously. However, the volume of arms sales to these states with extensive ambitions make them much more than an exchange of weapons for cash or bulwarks of the atomic energy program. Both the systems being sold and the relationships established thereby may exert major influence on Russia's future policies. The sales to India and China must also be seen in the light of movement to a new security order in the Asia-Pacific Region, which is awash in arms sales, especially naval and air forces, and which clearly needs a new security regime since U.S. power is visibly retrenching. Until now, Asian states regarded the United States as the best check upon Japan and China, formidable military powers that frighten each other and all their neighbors.¹⁴⁵ Our drawdown of forces only adds to fears of instability there.

In addition, states buying weapons want to add to the already oversaturated aerospace industry by creating indigenous ones. Increasingly they demand industrial offsets in return for sales (an offset is an industrial compensation for defense related purchases).¹⁴⁶ Thus, Asian capabilities and arms races grow. And, as in China, South Korea, and the ASEAN states, Russian arms sales to Asian states are seen in Moscow as a major and expanding instrument of a new Russian standing and presence in Asia. Therefore, the pressure is on in Russia to continue the arms sales. Kozyrev also made it clear, e.g. at ASEAN's Annual Ministerial Meeting (AMM) and the ensuing Post-Ministerial Conference (PMC) that Russia views its arms sales as a means to enter into Asian security issues and as a move towards restructuring the Asian

security order, e.g. by establishing an arms trade code, the same thing he has been urging since early 1993.¹⁴⁷

India.

For several years India engaged in an overall military buildup that brought it to the nuclear threshold and to the position of a regional hegemon. This led many outside observers to fear that it was aiming at such a regional posture in the Indian Ocean.¹⁴⁸ India's power has been since curtailed by domestic discord and severe financial problems. But India's long-standing military ties to Moscow were among its most all-encompassing and intimate of relationships. Some estimate that 70 percent of Indian army weapons were Soviet made, yet sales to India have declined 45 percent since 1988. The Soviet crisis and India's domestic unrest and economic slowdown have had a sizable impact on the *Indian military*. Since Moscow now expects payment in hard currency for defense exports and India's foreign reserves are limited and India owes sizable arrears to Moscow, India's military is building plants to make spares, scouring the former Soviet satellites for spare parts, and using simulators wherever possible. That will intensify its well-developed "indigenization" of former Soviet equipment and avert a crisis in arms production due to the ubiquitous interruptions of supplies caused by the Soviet collapse.¹⁴⁹ In time, Indian factories will be able to reproduce those systems.

But India's defense economic situation today is the subject of contradictory Western analysis and reporting. One view holds that the economic crisis and tight foreign currency reserves are also forcing cutbacks in previously projected military spending. But actual budget outlays will go up slightly for the army and substantially for the navy while the air force is cut.¹⁵⁰ According to other analysts there is a crunch in resources for the military, particularly among the naval forces, that will retard the growth which naval planners so strongly advocate. This crunch also manifests itself in rising manpower costs at the expense of procurement and O&M costs.¹⁵¹ However, more recently, Indian arms buyers, skeptical over Russian capability to deliver the needed spares, are buying military hardware and floating tenders for equipment worth

millions of dollars, despite the fiscal constraints.¹⁵² Therefore, one cannot come to a definite conclusion without a detailed examination of Indian defense policy. But clearly, Indian economic stringencies, however interpreted, coincide with Russian interest in preserving the lucrative Indian connection against stiff foreign competition and lie behind the recently announced deal to "shift" some Russian arms factories to India. These plants produce frontline aircraft, tanks, armored cars and other equipment for Indian use and export abroad. India's goal, expressed in Defense Minister Pavar's 1992 visit to Russia, was to restore the maximum possible volume of arms purchases. For its part, Russia values the mutual relationship to retain its position in the pivotal Indian arms market as well as its old political tie to India. As one reporter observed, for Russia, India policy is one of "fighting for space," not arms proliferation. And Russia also wants to set up a joint space facility in India to make up for the loss of Baikonur to Kazakhstan.¹⁵³

Russian searches for export markets in arms and rocket technology also lie behind the deal to sell India cryogenic rocket technology. This deal led the United States to slap sanctions on both states, the legal penalties provided in U.S. law for breaking the MTCR rules. Although Russia is not a signatory of the MTCR accord, it had stated its intention to abide by its rules. Hence, these sales have created much tension. Since U.S. firms and policy are also competing in India, Indo-Russian bitterness at the sanctions is great. Russian experts believe the United States is mainly trying to protect U.S. firms from Russian competition, and also are bitter about U.S. pressure to hold Russia back, a bitterness that only reinforces their desire to return "to active status" as a great power and global player. But in their anger they tend to dismiss the fact that Washington's main concern is that Russia is not only selling India rockets but also technology, whose transfer to the subcontinent the United States categorically opposes because it could exacerbate the already tense regional arms race there.¹⁵⁴ The resulting Russian criticism led then State Secretary Gennady Burbulis to denounce those who try to legislate world fashions without concern for their partners' interests.¹⁵⁵ India's press also attacked U.S. policy and

asserted that Russia had to draw a line to defend itself when its interests and Washington's clash.¹⁵⁶

But behind the anger, there are logical reasons for keeping the old relationship. Both states fear resurgent Islamism or nationalism among Muslims in Central Asia that could inflame their own borders. Pavar's visit led to talk of shared strategic interests. Thus there is good rationale to cooperate politically to stabilize the entire region, a "maximum interest" of Russia according to Burbulis.¹⁵⁷ In that connection there are also strong hints of Indo-Kazakh military cooperation as India seeks to extend its influence into the region directly.¹⁵⁸

India also wants to deprive Pakistan of any ability to gain a strategic foothold in Central Asia from which it can threaten Indian domestic stability, already seriously endangered due to ethno-religious unrest. Thus India wants to have leverage on Moscow so it does not sell arms to Pakistan or support its role in Central Asia.¹⁵⁹ At the strategic level, there are analysts of the Indian subcontinent who argue that the strategic and economic alignments emerging in Central Asia will shape the strategic balance of Asia for years to come.¹⁶⁰ For those reasons careful monitoring of Islamic peoples' activity, rather than shared overt anti-Chinese interests, will be the *main* political glue in future Indo-Russian ties, and a lasting feature of their policies.

But India's main military interest is clearly in continuing to upgrade its conventional and power projection forces and nuclearize its navy as was already envisioned with Soviet cooperation in 1990-91.¹⁶¹ Navy plans in particular call for including SSBNs in the fleet by the year 2000, and India had acquired SSNs from Moscow before August 1991.¹⁶² Therefore India is now negotiating with Russia for the former Soviet carrier *Varyag* and the naval air fighter, the YAK-141.¹⁶³ As part of India's program of acquiring more power projection forces and regional air superiority, it also got Moscow to offer it the SU-27 *Flanker* fighter either by outright sale or for manufacture under license. Since it is designed for long-range interception missions, it matches India's future needs.¹⁶⁴

The new pattern of Indo-Russian cooperation also fits in with India's drive for regional superiority and self-sufficiency. Indian military analysis in the wake of Operation DESERT STORM concluded that arms exports ensures a self-sufficient weapons manufacturing capability. When sophisticated military requirements, e.g., making the navy a "high-tech four dimensional force"—CINC of the Navy Admiral Ramdas' view—drive the R&D effort and quality, weapons become available to the forces. Therefore India, to be secure, must step up, especially, private sector R&D to become self-sufficient, earn and save foreign exchange, and create and market unique weapons systems. This is particularly the case inasmuch as the navy, and presumably other services, still see powerful Pakistani threats. But first, policy must change to allow the private sector into defense production.¹⁶⁵ And then the latter must export those weapons to obtain the foreign currency it needs to modernize further and remain competitive.¹⁶⁶ This view's congruence with Russia's emerging needs and visions is striking, but not surprising.

Accordingly, the most recent results of Pawar's and Yeltsin's visits and other official discussions are quite astounding given Russia's economic position. India will receive 30 MiG-29 fighter planes (24 fighters and 6 trainers) in early 1993 and a credit of \$830 million. This credit continues the lenient terms that the USSR offered India to finance shipbuilding, aircraft programs and tanks under agreements contracted during the Soviet period, and to buy special property.¹⁶⁷ There also is talk of reaching agreement on a new model submarine. But perhaps most important for India is the agreement to continue a large program of military-technical cooperation. This program, Indian commentators believe, will raise India's status to that of a partner with Russia and purchaser of high-tech state-of-the-art systems. It will also allow India to produce a continuous stream of spares that its military desperately needs.¹⁶⁸ Should that program encompass joint production and foreign sales by both countries, it will further deepen the Indo-Russian strategic partnership in Asia with profound domestic and international implications for both states. For example, it will enable India to play a major role in supplying other Russian clients with arms and spares. It

already has begun discussing just this role in regard to MiG-29s with Iran and Malaysia.¹⁶⁹ When we discuss Iranian arms purchases from Moscow, it becomes clear that a network of producers and of suppliers of Soviet/Russian systems is developing around India, Iran, and China. On the other hand, Kozyrev recently observed that if Russia does not sell Pakistan arms somebody else will, i.e. China. But the time for such cooperation has not yet come.¹⁷⁰ Should that development occur, it will certainly raise questions for India concerning fidelity to Russian arms.

However, the story for Indo-Russian defense relationships does not end here. By mid-summer 1993, Washington's pressure on the Russian space program, that the Clinton administration had sanctioned in retaliation for the rocket engine sales to India, was intense. Yielding to pressure, Russia announced it would not sell India the technology for producing engines that the United States objected to. Russia would also rewrite its export codes by November 1, 1993, to conform to the MTCR. In return it would get bilateral cooperation on space launches with the United States. This deal triggered an uproar of charges in Russia against the government for yielding to pressure.¹⁷¹ But its impact on India was still greater. Bitter disillusionment with Russia became evident. As *The Economist* reported, "Any Indian illusions that Russia under Boris Yeltsin would preserve the Indian-Soviet relationship built up during the cold war have now disappeared."¹⁷² In addition, India, suspecting this outcome, reaffirmed its commitment to drive towards defense self-sufficiency through a 10-year plan to overcome its dependence on foreign suppliers for spares. At the same time, India stepped up its purchase of arms abroad, in order not to be caught short due to the unreliability of Russia.¹⁷³

Iran.

Russian arms sales to Iran since 1989 continue Gorbachev's successful rapprochement.¹⁷⁴ For Iran, the urgency of rapprochement has grown with the creation of independent but unstable Transcaucasian and Central Asian states on Russia's southern flank, the unresolved situation in

the Gulf after DESERT STORM, and the Mujahedin's victory in Afghanistan. Apart from the fact that Russia historically has seen Iran as the key to its regional policy, today it needs Iran to help calm Central Asia. Its diplomats and analysts frankly admit that they must sell Iran arms to ensure the internal and external stability of the CIS' southern frontiers.¹⁷⁵ Thus a linkage between arms sales and a circumspect Iranian Central Asian policy exists and Kozyrev openly proclaimed it.¹⁷⁶ Despite the nuclear deals listed above, Kozyrev also claimed that Russia only sells conventional weapons to Iran.¹⁷⁷ Iran, for its part, has been remarkably circumspect. Although it is using its economic and energy assets to win influence in the region, it has attempted no destabilization, regards peace in the area as in its interest, and fears Azeri irredentism, unrest at home, and severe economic problems.¹⁷⁸ To buy many arms quickly, become a regional hegemon, and maintain domestic stability, Iran needs Russia as much as Russia needs Iran. Mutual interests underlie a growing arms trade relationship.

This relationship is disturbing because of constant reports that nuclear scientists or warheads have made their way to Iran. It is also true that Iran is, as former CIA Director Gates testified, in the middle of a comprehensive "across the board" arms buildup. With Russia alone, it is in the third year of a 5-year billion dollar annual program. To date, Iran has purchased the following weapons: 1) 3 Kilo-class diesel electric submarines; 2) 24-28 MiG 27s and 29s, and asked for the MiG-31; 3) Su-24 and Su-27 fighter bombers; 4) 200-250 T-72 tanks; 5) 18 fighters and 2 modern Ilyushin-76s fitted with aerial reconnaissance and EW equipment, a kind of AWACS system; and 6) missile launchers and long-range guns.¹⁷⁹ In 1992 Iran was expected to spend worldwide \$14.5 billion to buy arms including high-technology computer systems from the United States.¹⁸⁰ It is also buying systems over time that could enable it to interdict the Gulf and Strait of Hormuz, wage armored warfare, and construct a powerful air and air defense system.¹⁸¹ In 1992, *Le Monde* reported a deal for 110 planes worth \$11 billion. The planes included 12 TU-22Ms, 48 MiG-29s, 24 MiG-31s, 24 Mig-27s, a variant of the AN-72 that serves as a maritime reconnaissance aircraft, two Ilyushin-76 radar aircraft, a variety of surface-to-air missile batteries

(long-range fixed-site SA-5, 11 and 13 mobile weapons) and spare parts, and 30 MiG-29s in 1991. Russia also will rehabilitate the 120-130 formerly Soviet models of Iraqi aircraft that were flown to Iran during the 1991 Gulf War. Iran's interest in the SA-5 AWACS and interceptors strongly suggests a plan to purchase an overall integrated Russian-style air defense package that also almost certainly includes AS-6 anti-ship missiles. These purchases suggest Iran's aim of regional hegemony, with substantially upgraded military capabilities, a prospect that alarms every other Gulf state.¹⁸² Since then, in November 1992, Iran confirmed that it was buying two more Russian Kilo-class diesel submarines, bringing the projected total to five submarines costing \$1.35 billion, almost double previous Western estimates. Even though experts reckon that Iran will need a long time to present a serious naval regional threat, Iran's acquisition of these submarines has already aroused the concerns of neighboring states and induced Britain and the United States to send additional SSM submarines to reinforce regionally active CVBGs.¹⁸³

In military terms the sale of the TU-22Ms (Backfire) and associated air, air defense, submarine, and reconnaissance systems apparently is designed to give Iran an integrated anti-ship capability, particularly against American carrier battle groups. These systems, taken together, substantially increase the air envelope of the anti-ship battle or the defense against American air sorties from the sea. Thus, they mark an open challenge either to deny others the seas around Iran or to go for command of at least key zones of those waters.¹⁸⁴ Western analysts estimate that these acquisitions have boosted Iran's combat capabilities by as much as 40 percent. Since the Backfires also have a nuclear capability (i.e., they are dual capable) and a 4,000 KM range before refueling, they could strike any Israeli, Arab, or other target on land or in key SLOCs in the Indian Ocean or even Mediterranean, with a nuclear aerial bomb should Iran acquire that capability.¹⁸⁵ The only drawback to this buying spree from Iran's standpoint is that it might not be able to maintain the planes and get enough spare parts even from Russia.¹⁸⁶ If that be so, then this capability will soon degrade. But nobody knows for sure whether Russia can supply them or whether Iran can pay for all this equipment and

spare parts. It is probably such concerns that led Iran to make itself the center of a circle of suppliers and maintainers of Soviet/Russian systems. It has approached India for military-technological assistance in maintaining its Russian and Western purchases, developing communications networks, military training and instructors, technology transfers, and even arms purchases.¹⁸⁷ Although India is reluctant for fear of transfer to Pakistan and U.S. retaliation, China and North Korea are not. Iran's purchases from China are estimated at \$5 billion since 1990. North Korea has signed an accord with Iran to develop nuclear capable missile systems that could even reach Central Asia. Iran will finance North Korean design and assembly, and North Korea will build repair facilities for the Soviet/Russian aircraft purchased from Pyongyang, Kiev, Moscow, and Beijing.¹⁸⁸

It may be defensible to sell arms as a payoff to Iran for keeping Central Asia quiet, to put it crudely. But Russia is not only selling large numbers of systems to Iran, it also is aggressively pursuing sales with other Gulf states, Iran's rivals. Since Russian observers discern a regional "rearmament syndrome," they consider it a propitious time for selling arms. They view the UAE as particularly receptive to MiG-29s, Su-27 fighter bombers, T-72 tanks, and the S-300 anti-missile system that they claim to be even superior to the U.S. Patriot, and have sent both Kozyrev and Grachev to peddle weapons throughout the Gulf.¹⁸⁹ And they also contend that, "People in countries of the Persian Gulf do not believe that the United States and Western countries should have a monopoly on arms sales in this region." Or, less elegantly, they say that the United States has no right to comment given its track record.¹⁹⁰

In May 1992, the UAE confirmed it would buy 500 BMP-3 IFVs and Russia is aggressively pushing its BTR-80 armored personnel carrier to Oman. Russian arms' cheapness and, in several cases, their known quality, make them attractive to Gulf states.¹⁹¹ Recently, in return for sizable arms purchases by the Emirates, Russia also set up a naval presence in the Gulf, a sign of their interest in a Russian presence there and the main aim of Grachev's visit, a lasting bilateral military relationship.¹⁹²

Apart from the search for political influence and markets, however, Russia also solicited these states' support, just as it did Iran's, for its integrity and the stability of the Islamic areas of the CIS.¹⁹³ But all these states have related their suspicions of Iran to Kozyrev. Continued arms sales to both sides here could well draw Russia into a nasty regional conflict where it can gain nothing but lose a great deal as in the Iran-Iraq war. The deepening of these arms sales relationships could also foster a return to the past when Moscow's ability to supply friends with cheaper arms was the main instrument of its local influence. In that case, protracted conflict would once again be in Russia's interest as that necessitates arms sales. Certainly its aggressive marketing program sits uneasily with Kozyrev's speech above. And sales to Iran led many U.S. figures to advocate tying economic aid to Russia to halting those arms sales.¹⁹⁴ On the other hand, Russia has frequently insisted that it will not let states like Turkey or the UAE use the weapons either against regional tranquility or obviously Russian interests.¹⁹⁵ However, the question remains, how will Russia enforce this prohibition if the search for profits and influence drives its policy? After all, Russia supplied both sides in the Iran-Iraq war of 1980-88.

The two most alarming aspects of these sales to Iran are, of course, the nuclear dimension of Russian and Chinese sales to Iran and its enhanced military capabilities due to those sales. Both Russia and China have signed deals with Iran to install nuclear power plants there. Russian propaganda maintains its plants are strictly for peaceful purposes. Russian radio broadcasts to Iran denounce U.S. criticism of those sales and of the submarine sales, as well.¹⁹⁶ Since there are constant rumors of nuclear warhead transfers to Iran, none of which has been substantiated, the contracting for reactors and power plants add fuel to an already burning fire. Foreign Ministry officials acknowledge that they knew the United States would object to those sales but proceeded anyway, believing that Washington's main objective is to eliminate Russian competition in the arms market.¹⁹⁷ Clearly this program strongly suggests that Moscow's willingness to cooperate with U.S. Middle East policy has increasingly visible limits and that

we can expect more divergence in the two states Gulf policies in the future.

For these reasons the sales to Iran are not only dangerous for all the states in the region but prospectively for the United States and our allies as well. Nor can the danger elude Russia, especially if unrest in Central Asia, as in Tajikistan, escalates beyond its present limits. Therefore, the contradictions inherent in Russia's policy cannot easily be reconciled or overcome and could lead to continuing Russian difficulties or extended instability in Transcaucasia, the Middle East, the Gulf, and Central Asia.

China.

With China, too, the current relationship grows out of Gorbachev and Shevarnadze's policies to normalize relations. Even during the frosty 1982-86 period, China purchased some \$310 million of Soviet arms.¹⁹⁸ But in 1989-91 a substantial military relationship developed between the two states for reasons of geopolitics and ideological congruence, especially between their militaries. The military relationship slowed but resumed after the August coup for reasons of *Realpolitik*. China, not Japan, appears to be Russia's main economic and political partner in East Asia, a pattern that conforms to traditional Tsarist and Soviet policy.¹⁹⁹ Accordingly, all aspects, especially the military one, of this bilateral relationship are of special importance to both Korea, Japan, Taiwan, Vietnam, the ASEAN states, and India. And prospects for fundamental change in China after the current leaders "go to meet Marx," amid unresolved Chinese debates over military influence in politics, make the outcome of that bilateral military relationship still more important. In addition, China's own growing role as arms exporter, especially in the Middle East, makes the tie to Russia of special concern since co-production or joint venture accords could lead to production of Russian systems by China or jointly for re-export abroad despite international pressure. North Korea did this with missile technology. And since the Chinese arms sales firms are lucrative preserves of key leaders' relatives and essential vehicles for China's military modernization, strong domestic pressures exist to maintain or

expand China's capability to produce high-quality weapons despite foreign pressure.²⁰⁰

Russia's arms trade with China fulfills both domestic and foreign objectives. At home it is a profitable source of cash and long-term customers for the MIC, many of whose members admire China's economic modernization program. Second, the policy is popular across the Russian political spectrum, a most untypical phenomenon.²⁰¹ Third, as Kozyrev observed, China is Russia's "great and worthy ally." The fact that Yeltsin could visit China successfully towards this end increases Russia's standing and influence with America, just as the global strategic partnership with the United States increases Russia's standing with China. Ostensibly this is not a playing of the China or U.S. card but recognition of Russia's impressive qualities. However, it appears that Russia's utility to China owes much to its ability to provide China with high-tech military systems.²⁰²

As noted, the arms sales program begun before August 1991 has continued since, along lines like those of India and Iran. China has bought 24 SU-27s, is training its pilots on them, and is interested in further purchase of other high performance aircraft like the Tu-204, the SU-22 fighter, SU-24 and SU-25 ground attack planes, MiG-29, MiG-31 fighters, Il-76 transports, "secondhand" AN-24 and Yak-40 passenger aircraft, i.e., transports, weapons of mass destruction, electronics, air defense systems, and the Varyag aircraft carrier.²⁰³

A key point here is how these purchases fit in with Russian policy, Chinese military doctrine and strategy, and trends in Asian security. First, the freeze in relations with Japan and the growing warmth of ties to China suggest an anti-Japanese decision to appoint China as Russia's main partner in Asia.²⁰⁴ Second, Chinese thinking on international affairs has viewed China as under threat from an ideological offensive of "peaceful penetration" spearheaded by American liberalism. China also fears the risks to its freedom of action in a U.S.-dominated unipolar system and sees that system ushering in *potential* increases in regional tensions that could lead to war. And, lastly, it also fears Japan's rising potential to isolate China by

strictly economic and political means, not to say military ones should it so incline.²⁰⁵

The wars that could affect Chinese security according to present doctrine (reinforced by Operation DESERT STORM) are local and limited wars on its peripheries. These wars place a premium on mobility, lethality, and striking first. Chinese thinkers expect that they could easily arise out of ethnic tensions on the borders (e.g., Central Asia) or disputes over the territories that China claims from its neighbors: the Spratly, Paracel, and Senkaku Islands, and Taiwan. In restructuring its forces away from the heavy ground forces expected to defend against a Soviet invasion, China is limited by poor power projection capabilities, technological backwardness, and shortages of cash. Accordingly, it embarked on an ambitious program of arms sales to raise cash and is reorganizing its forces to give greater power and mobility to specially tasked "Fist" forces. These forces are evidently packaged to meet regional specifications and are oriented to amphibious and airmobile forces as first-strike forces in these limited wars that China deems most likely. The buildup of these forces continues apace and their requirements: fighter air, aircraft carriers, and ground attack aircraft are just the forces that China has already contracted for, bought, or publicly showed interest in acquiring. Equally important is the Russian military's knowledge of and public discussion of Chinese developments in doctrine and force planning. Therefore, it is impossible to believe Russia is unaware of those plans.²⁰⁶

China's steady buildup of forces along these lines, its history of threats and of actions that go beyond coercive diplomacy to include invasion or occupation, and its truculent diplomacy, expressed in a recent law strongly reaffirming its claim to the Spratly Islands and suggesting their forceful reunification with China, have greatly alarmed Taiwan, Japan, and Southeast Asia, which are engaged in a counter-buildup of naval and air forces.²⁰⁷ Taiwan, too, is trying to buy Russian arms, a prospect that undoubtedly would anger China and that Russia has hitherto excluded.²⁰⁸ Although China recently reiterated its desire to settle all issues peacefully, skepticism abounds for two reasons. First, China's position is that there

are no claims to settle. The entire South China Sea belongs to it. Second, China's profession of peaceful intentions followed intense Western reporting about China's military policy and role in Asia's deteriorating security relations.²⁰⁹ Russian arms sales to China could encourage Chinese coercive diplomacy or worse, degrading Asian security and spurring a brisk regional arms race. Russia's risks, thereby, now include other Asian states. The Miyazawa government in Japan increasingly tied arms sales to China to return of the Kurile Islands as a precondition for aid to Russia, and rightly saw these sales as anti-Japanese.²¹⁰ Russia is offering arms to Indonesia, Thailand, the Philippines, and Malaysia and would gladly offer them to other ASEAN members. But it does not sufficiently take into account the fact that these states are among the most suspicious of China's aims and could easily become involved in a local war to block China, thereby replicating the risks Russia runs in the Gulf.²¹¹

So, too, has Russia now entered into the arms sale race with both Koreas, more fully described below. South Korea is making plans to invest greatly in converting Russian military plants, acquiring high-technology and making "trial" purchases of weapons systems.²¹² Meanwhile, despite Yeltsin's remarks to the contrary, it appears that Russia continues to sell some arms to the DPRK and may yet sell more to gain leverage over nuclearization issues there.²¹³ In time China's military buildup could also collide with these military relationships with ASEAN and Seoul, or a future one with Taiwan, which is negotiating with Russia.

Thus Russian policy in Asia, insofar as it is connected with arms sales, is inherently contradictory and dangerous.²¹⁴ Therefore, these particular sales merit more detailed consideration such as is given below. Finally, it is also clear that Russia highly values its "partnership" with Beijing and considers it important to coordinate their mutual approach to regional security issues. This cooperation will also give Russia an entree into a region it cannot yet influence by economic or diplomatic means, especially given its impasse with Japan. In other words, once again military considerations, not economics

or politics, will predominate in establishing Russia's bona fides as an Asiatic power.²¹⁵

But the risks of returning Asia to bipolar camps and intensifying its arms races if not conflicts are not the only potentially negative results of the arms sales policy. First, arms sales of sophisticated weaponry, often at fire sale prices, allow China to circumvent Western and U.S. restrictions put into place after Tienanmen Square in 1989. These sales encourage China's leadership to continue anti-Western ideological mobilization and military politicization. Second, Chinese appetites do not stop at what they have already acquired or want. U.S. officials charge that China is now considering weapons of mass destruction, missile guidance systems, and nuclear fusion technologies on top of the aircraft already mentioned, rumored sales of T-72 tanks, air defense equipment, electronics, and carriers.²¹⁶ Third, to finance its arms modernization and to gain strategic influence abroad, China has aggressively sold very lethal arms such as SCUDs and anti-ship missiles.²¹⁷ Russia and China might follow India's precedent and co-produce any or all of these systems. China's familiarity with Soviet weapons and armed forces would facilitate such ventures.

Finally, there are domestic risks in the extensive arms trade with China. It is often reported that China acts clandestinely and deals directly with military producers rather than through Moscow.²¹⁸ That impedes civilian control over the military and the de-militarization of Russian politics. And it could also corrupt Russian politics as a whole, as well as the MIC and the Russian military by inserting China as a special covert influence on policy. And even where Moscow knows about the deals being made, it is unclear if it controls the policy or the process. Andrei V. Kuzmenko of the Institute of World Economy and International Relations (IMEMO) told a conference in San Diego that, "The producers are now more or less independent. And they have their own independent lobby."²¹⁹ If this is true, it would seem that the domestic and foreign dangers of an unregulated and unrestricted arms sales policy will afflict Russian policy in Asia. Vice-Premier Aleksandr' Shokhin as much as admitted that many design

bureaus and enterprises were seeking private deals with China.²²⁰ Other reports flatly asserted that the government cannot control the producers and blasted the sales to China because they are largely paid for by consumer goods instead of cash.²²¹ These trends in bilateral relations suggest that in many ways Russia or key political elites could become hostage to Chinese policies and developments, a trend that will severely limit if not undermine reform. In other words, Russian arms sales to China simultaneously reflect both the imperatives of the two states' grand strategy and the internal confusion inside Russia's defense industry. The coincidence of these two factors must be kept in mind in tracing the bilateral military relationship.

More recently, since the winter of 1992-93, the pace and direction of Chinese arms purchases have become clearer and have caused greater alarm. China revealed that it is to take possession of 48 more SU-27 fighters before 1995. It will buy 4 TU-26 long-range bombers in 1993, 118 sets of missile systems before 1995, and 70 improved T-72 tanks in 1993. It is also negotiating for a MiG-31 fighter-interceptor production line, with manufacturing and technological rights including production technology personnel. This transaction alone involves \$2.5B. Russia also has offered to develop an airplane midway between the MiG-29 fighter and MiG-31 high altitude interceptor. This project would take 5 years and Russian aerospace companies would provide 60-70 percent of the technical input and design work. Much of the avionics and critical technologies in the plane would be Russian and since Chinese production facilities are backward relative to Russia's, Russia would also provide much of the production facilities. The Russians would like to produce components for the plane in their own factories to gain capacity and then ship them to China for assembly. But analysts believe China is almost certain to insist on local manufacture. China is expected to plan for building 100-150 aircraft annually. China also is reported to have ordered 50 T-72 tanks and 70 BMP vehicles in 1992. The Chinese Navy is also looking into buying Russian submarines and then producing its own based on the transfers which the Chinese apparently want to be new models of the Kilo class. Although the MFA is reluctant to sell China major

warships lest it disturb the regional balance, it is not yet certain what will come out of those talks.²²²

China has also recruited many Russian military technicians for long-term service. While the numbers are not clear, estimates run into several thousand.²²³ Other reports indicate China's accord to purchase S-300 anti-air missiles and negotiations over the newest system, the SA-15 TOR missile.²²⁴ These particular purchases bespeak China's ambition to field an integrated land/sea air defense system using Russian air and missile systems. If combined with the naval air platform (not necessarily a carrier as we know it) that China is seeking from either Russia or Ukraine, this would give China a very formidable air and air defense system extending into the waters around the country.²²⁵ China is also apparently looking at the SU-27K, the carrier version of the regular fighter, for such naval deployment.²²⁶ Thus it appears that China is creating the infrastructure for a mobile and expanding offensive air defense system, and an integrated carrier battle group. This coincides with Chinese military spokesmen's goals, for example the general quoted in *China's Business Times*, who said in November 1992, "If we had an aircraft carrier, warfare in the South China Sea would be more lively, and many situations would be easier to handle."²²⁷

However, these are not the only reasons for worry. No conventional system causes as much concern as does China's efforts to obtain the long-range TU-22M Backfire bomber. It has a dual use 4000 kilometer unrefueled range and is far more advanced than China's principal bomber, the H-6. Though spare parts may prove to be a problem, mere possession of this system, let alone possible production capability, will likely frighten all of China's neighbors.²²⁸ This system will only heighten the alarm that leads to increased arms buying across Asia.²²⁹

Russia not only argues its need for revenues from arms sales and for good relations with China, but also has taken precautions to make sure the weapons are not deployed against Russia, where the bulk of Chinese land forces are still deployed, and that China does not get its most technologically sophisticated models of the platforms it buys from Russia.²³⁰

Russia also argues that it is only selling defensive systems, not, for example, air to ground missiles.²³¹ Nonetheless, the extensive subsidies to China, the transfer of production technologies, and China's ability to establish direct links to defense producers who are desperate for customers, all speak against that argument and suggest the great and multifarious dangers that accrue from these sales and China's clear military buildup.

That buildup reflects the loss of any rationale for Chinese regional power other than military, the failed ideology of Maoism, and China's abiding unilateralist and nationalist foreign policy. For example, China has vetoed every multilateral initiative for Asian security.²³² As Samuel Kim has written,

The general silence and passivity on regional arms control and disarmament issues, in contrast to its activism in global arms control and disarmament (ACD) forums, bespeak Beijing's acute concern that the establishment of a multilateral arms control regime would cut too close to China's expansive regional security zone. Regional arms control processes would also pressure Beijing either to cooperate or defy them. Chinese behavior in arms control and disarmament talks follows a maxi-mini principle of maximizing narrowly construed security interests while minimizing normative costs by projecting China as part of the global solution. This is a calculated, dual-track policy at work, giving moral and rhetorical support to global ACD programs—and free-riding off superpower arms control processes—while at the same time taking selective unilateral disarmament measures...Regional arms control is not part of the policy.²³³

ASEAN and the Korean Peninsula.

It is obvious that the volume of sales to China, the intimacy of the relationship, the types of weapons and technologies being provided, and the links to Russia's MIC portend the most serious consequences for Asian security from the Korean peninsula to India. Already Japan has publicly expressed alarm that it might have to rethink its entire defense posture if China gets its carrier.²³⁴ Although Russia claims to have instituted review procedures and policies to make sure China does not threaten its neighbors and professes unconcern at China's

purchases, the evidence presented here suggests that this complacency is misplaced.²³⁵ China's overall buildup has not only intensified Asia's existing arms races and fears, it has also led Russian officials to try to cash in on those and other fears of Asian states. Thus no analysis of Russian arms sales is complete without a look at Russian activity in Southeast Asia and on the Korean peninsula, areas clearly affected by China's programs as well as their own indigenous security threats. The fact that Russia is eagerly offering these states, China's likely rivals if not enemies, weapons, strongly illustrates the fundamental irresponsibility of the arms sales program and the faulty, if not false rationales that underlay it.

Russian arms sales to both ASEAN and the Korean states are driven by the MIC's needs and by the government's ambitions in Asia. Thus Kozyrev told the 1992 ASEAN AMM that Russia was "prepared to develop cooperation in the military and military-technological area with the ASEAN states with the aim of maintaining their security at the level of reasonable sufficiency."²³⁶ In 1993 he stated that Russian weapons sales would occur under conditions of maintaining a balance among requirements for regional stability, the interests of each state in the region, and of arms dealers. In other words, this balance meant an arms trade code for Asia.²³⁷ And this code is clearly intended to be a centerpiece of Russia's overall efforts to craft an Asian security order, and thus gain entry into the region.²³⁸

ASEAN's growing prosperity, aging military systems, high prestige of native militaries, and fears of China offer its members powerful incentives to enter the world arms market in a big way. Those motives naturally attract Russia and lead its officials to seek to penetrate that market. Therefore Russian officials publicly state that their objective is not only to sell to ASEAN, but also to create a permanent niche throughout Asia based on maintenance of weapons systems, particularly aircraft. And characteristically the potential for sales has been estimated in the billions of dollars. Russia's ability to undersell its competitors probably has also been similarly overrated.²³⁹

Admittedly Western prices are higher, but so too is quality, repair service, and maintenance. Nonetheless, cost could

figure in ASEAN's and other states' interest in aviation, submarines, helicopter gunships, patrol boats, and AFVs.²⁴⁰ Thus Russia has vigorously pursued the sale of MiG-29s to Malaysia, offered them to Thailand, and reputedly has received expressions of interest from Seoul and Manila. It also offered warships to Manila.²⁴¹ Thailand apparently turned down the offer, but the sales to Malaysia have been confirmed.²⁴²

What is known about these sales is that Moscow is offering Mig-29s and MiG-35 helicopters to Malaysia and the difficulties appeared to be concerning payment. After tough negotiations, Russia once again accepted payment in goods (palm oil and textiles) rather than cash for the \$760M deal. Moreover, to make the deal, Russia had to reduce its price to 20 percent of its first offer to demonstrate its seriousness.²⁴³ Vice-President Rutskoi commented that Russia was ready to enter into shipbuilding, high-tech, conversion, and space technology deals with Malaysia and ASEAN to the extent of helping Malaysia launch its own telecommunications satellite.²⁴⁴ Rutskoi also proposed building factories in Malaysia to refit and modernize 5000 decommissioned AN-12 transports.²⁴⁵ Rutskoi thus revealed the persistence of Russia's search for entry into Southeast Asia. He also revealed the potential linkages among other buyers of Russian arms since India signed its first defense cooperation agreement with an ASEAN state with Malaysia, and India has the capability to build, operate, and maintain the MiG-29. Therefore it could supply Malaysia with spares as part of its own technology and production agreements with Moscow, and thereby establish a true network among arms buyers and producers.²⁴⁶

Malaysia also represents a battleground between U.S. support for its arms producers and Russian support for its firms. In conjunction with this sale the Russian press reported that U.S. concern over Russian arms sales led to a decision earlier this year to let Russia sell conventional weapons in developed European countries and the United States in exchange for renouncing sales of mass destruction weapons and "other high-class weapons" to "terrorist states" that are not listed by name. A bilateral commission led by Vice President Gore and Premier Chernomyrdin was set up to regulate this cooperation

and Malaysia was to be the test case for Russian entry into this market. However, under pressure from McDonnell-Douglas and General Dynamics, the U.S. Government organized a campaign directed at Malaysia to buy U.S. planes and not Russian ones, even getting the U.S. firms to lower their prices by 30 percent. Although the United States denies this charge, Russian officials apparently believe it and are upset with the alleged dishonesty of the United States.²⁴⁷

But Malaysia clearly represents the opening wedge through which Russian arms makers hope to penetrate the lucrative Southeast Asian market. Thailand has negotiated with the Russians to barter food for helicopters but is considering U.S. models, too, in an effort to secure better terms and reduce its trade imbalance with Russia.²⁴⁸ Other nations can be expected to follow in Thailand's steps. More dismaying is that U.S. officials in the area apparently are not concerned that these arms sales will disrupt regional stability and consider them "a perfectly valid form of enterprise."²⁴⁹

Nevertheless the dangers inherent in these particular arms sales do not only lie in stimulating regional arms races. Selling high-performance planes and modern platforms to ASEAN, China's most likely regional enemy in the disputed South China Sea, fundamentally contradicts the logic of far greater arms sales to China.²⁵⁰ Nor does involving India, another rival of China's, make much sense in terms of regional security for ASEAN states. Russia may well be forced to choose between customers in the event of a crisis, and by virtue of its stronger domestic linkages to China, it would probably come down on China's side even though its planners regard China as the likely enemy in a conventional theater war. Alternatively, India, now unhappy with Russia, might use its position to supplant it in this market. Surely inciting Southeast Asian tensions does not contribute to Russia's supposed goal of overall Asian security. And if the goal is the military security of ASEAN members, why then is Russia so heavily contributing to China's threatening posture? Clearly the antinomies and contradictions of Russia's Asian policy reduce Russian policy objectives to making a quick buck, entering arms markets, and becoming an Asiatic

presence thanks to arms sales. These tactics will not lead Russia out of its largely self-made impasse in Asia.

Much the same could be said for its arms sales policy to South Korea and North Korea. Whereas arms transfers to the DPRK were a long-standing Soviet policy, sales to the ROK also began under Gorbachev. In April 1991, it was revealed that Moscow offered both the MiG-29 and MiG-31 to the ROK, the former at lower than usual prices, in return for ROK consumer goods. There also were bilateral atomic energy cooperation talks.²⁵¹ Since then, defense cooperation with the ROK has grown along with bilateral economic-political cooperation. In August 1992, Seoul announced its intention to ask Russia for permission to supply facilities related to commercializing Russian defense industry, and stated that it was considering buying some Russian defense industries to operate them as joint ventures.²⁵²

By October 1992, it was revealed that those ventures were in aerospace, advanced materials, electronics, lasers, and genetic engineering. The two states defense industries' associations had established scientific and discussion links to review joint projects. ROK firms were particularly interested in importing aerospace technology, including composite materials for aircraft. At the time ROK spokesmen envisaged only limited purchases of Russian fighter jets or tanks for training purposes because support and maintenance concerns outweighed Russian price advantages. Moreover, their technology is not advanced enough for intense cooperation in the aerospace field.²⁵³ More specifically, it soon transpired that the ROK was considering buying MiG-29s, mines, torpedoes, tank ammunition, and SA-6, SA-8, and SA-16 surface-to-air missiles.²⁵⁴

By February 1993, Li Din-Ke, Samsung's Chief Designer of the Institute of Advanced Technology, claimed that Moscow was willing to sell both space technology and even nuclear technology, confirming reports of South Korean interest in getting ways to reproduce fissionable materials.²⁵⁵ Soon after, it was announced that a ROK consortium would build the Almaz S-300 PMU antitactical ballistic missile system and its associated search/acquisition/command/tracking radars

under license. That production would fulfill Seoul's aim of countering the DPRK's SCUD Model B/C ballistic missile.²⁵⁶ South Koreans have made visits to secret defense factories and appear to be optimistic about Russian prospects while Russia is pleased to have the relationship with Seoul as an economic good in its own right, and as a reminder to Tokyo of what Japan is missing by not normalizing relations with Moscow.²⁵⁷

However, this relationship has a darker side, one that applies to North Korea. By mid-1992, Russian officials were claiming openly that they would not supply Pyongyang with weapons systems or technical assistance for military purposes and that Moscow opposed nuclearization of the peninsula.²⁵⁸ By the summer Russian observers reported that Seoul believed that the Soviet-DPRK treaty of 1961 was moribund; hence, in a war, Moscow would not supply the North.²⁵⁹ Russian analysts commented that Russia's interests were stability on the peninsula, coordinated freezes of weapons supplies, curtailing third country military activities around the peninsula, and U.S. withdrawal to match inter-Korean progress in confidence building. Yet they admitted that despite words to the contrary, Moscow still supplied weapons to the DPRK due to the treaty commitments, tradition, and the lack of an inter-Korean accord on restricting weapons imports on both sides.²⁶⁰

When Yeltsin came to Seoul in November 1992, he denounced the 1961 treaty with the North as had State Secretary Poltoranin in Japan in August (thereby causing Tokyo profound embarrassment and Pyongyang great anger). Yeltsin strongly suggested that Russia would no longer honor the pledge to defend the North in a war, would cut off military aid to it, and would "impose political pressure" on Pyongyang to stop its nuclear weapons program.²⁶¹ The DPRK Foreign Ministry denounced Yeltsin and revealed that in July Moscow had said the treaty remains "effective on a full scale" and that Russia still maintains leaving the treaty intact. Moreover, Russia proposed to commercialize the military relationship between them.²⁶²

Be that as it may, there can be little doubt, however, that the precipitate urge to distance Moscow from the DPRK and the reports of arms and technology, up to nuclear technology, transfers to Seoul fed the alarm that Pyongyang felt and feels about its international position. In turn, that alarm contributed to its threat to leave the nonproliferation regime and its accelerated nuclear and missile programs that threaten the South, U.S. troops there, Japan, or Russia and China for that matter. Evidently there have also been second thoughts in Moscow about the wisdom of its past policy because prominent Far Eastern specialists like Mikhail Titarenko argue that not only is Russia exercising influence on the DPRK to return to the NPT regime, it should also resume selling it crude oil and weapons to regain leverage on the DPRK's policy. The past policy was a mistake as a long-term policy as the nuclear crisis showed. Therefore, Moscow should not follow a policy centered on the South but seek to recover its influence on the North. Even though arms and oil sales are contrary to Russia's basic policy of relaxing peninsula tensions, Russia has no alternative.²⁶³

If this comes about, this reversal would be another victory for the MIC and the opponents of demilitarization of the economy, who probably sympathize with Pyongyang's anti-American posture. But it would be another example of how a rash policy of arms sales works to diminish Russian and overall security in Asia in return for rather marginal gains. Inasmuch as the MOD concedes it cannot police the flow of high-tech weapons abroad, the sale or illegal transfer of these systems and technologies, especially in the nuclear field, can only foster the greatest concerns abroad.²⁶⁴ This is one area of arms sales policy that needs to be carefully monitored in the future.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

It is a difficult task to suggest recommended policies for the U.S. Government to influence if not restrict and eventually curtail Russia's arms sales to dangerous states or in insecure regions. For one thing, U.S. hands are hardly clean. The vigorous competition to sell planes to Malaysia undermined the earlier efforts to arrive at some sort of bilateral agreement, if not cartel, concerning the provision of arms and technologies to third parties. And that competition also demonstrated the vigor with which the U.S. Government will defend or intercede on behalf of its defense industry. Since the argument of a U.S. effort to oust Russia from the world market is frequently invoked to justify an equally vigorous Russian arms sales offensive, factual corroboration of the arms producers' claims does not facilitate a reduction in their activity.

Nevertheless, inaction or ad hoc responses will only make a bad situation worse. This is true even though there are no simple or easy answers to the problem of Russian arms sales. As the Clinton administration's recent sanctions against Pakistan and China indicate, in order to put teeth into the MTCR, the United States may have to sacrifice the interests of its own producers. In addition, it is probably beyond U.S. capability fundamentally to shape the particular structure of relationships that will eventually mature between Russia's government and Russia's defense industrialists. However, we can and should support reform policies that tend towards demilitarization of Russian politics and economics, the imposition of legitimate and lawful civilian control, and responsiveness to U.S. security interests and concerns. More specifically, we should encourage the formation of joint ventures between U.S. and Russian defense industries to prevent them from falling under hostile foreign influences or

losing trained personnel to states like Iran or China. Those joint ventures would also then be subject, to some degree, to U.S. legislation and safeguards against certain kinds of weapons transfers.

We also need to reinvigorate talks on joint or mutual self-regulation of arms sales along the lines of the MTCR both with Russia and with other providers. There are several reasons for doing this:

- Since we cannot, unilaterally or by multilateral efforts, stop the flow of arms or of science and technology, a regime of providers, like the MTCR, can regulate the arms trade and serve as a functional confidence-building measure among providers and sellers, many of whom are also consumers of arms and defense technologies.
- Integration into such a regime will give Russia a better idea of the limits of the market place and damp down extravagant claims about potential gains from arms sales. That outcome, in turn, will not only enhance the perception of the visible benefits of partnership with the West, but will also demonstrate the very limited gains and numerous risks involved in defying those regimes that control proliferation.
- Participation in such regimes will make it harder for buyers to extort concessionary terms from sellers, as is now the case, and to demand offsets that only further diffuse dangerous weapons platforms and technologies. It would also be more difficult for outlaw states like Iraq to achieve the successes they had in the 1980s in beating the international system to obtain high-tech weapons and weapons of mass destruction.
- The benefits of such arms sales regimes will be greater than the costs involved should Russia or other states attempt to violate the provisions of the MTCR or subsequent arms sales regimes.

This leads us to an additional recommendation for the U.S. Government, one that it is apparently already pursuing. The

Clinton administration has announced that it regards proliferation with great seriousness and will act to prevent it, particularly in East Asia. Thus it has already imposed sanctions on Russia and India, as well as China and Pakistan, even though the latter sanctions directly hurt American exporters and producers. In Russia's case the sanctions had the desired effect. Russia withdrew the objectionable sales to India and pledged to subscribe to the MTCR. And its pressure on Chinese shipments to Iran forced China to accede to a third party search of its freighter in the summer of 1993. The use of U.S. law to impose sanctions on violators of the MTCR or the threat to do so apparently does have a positive impact on their policies.

For these sanctions to be maximally effective, however, the United States, too, will have to draw down its own sales abroad and use persistent diplomacy to get other states to do so as well. While the United States cannot stop the flow of science and technology, we can, through political, economic, and diplomatic means, channel that flow abroad. Such an effort also imposes the requirement to work with consumers and producers to reduce the regional insecurities that drive their arms programs. Ultimately it means a willingness to entertain, much more seriously than before, novel forms of security relationships in the Middle East, the Persian Gulf, South and East Asia, and Central and Eastern Europe.

The need to do so is growing, perhaps faster than the United States can respond, and certainly faster than we have responded to it previously. The trends are not particularly encouraging except for instances like the cryogenic rocket technology to India which the United States successfully blocked. Russia is now offering its top-of-the-line systems to buyers like Malaysia. The MiG-29 it will get is apparently the latest version of the Fulcrum that includes the R-27 medium range missile and the R-73 short-range infrared guided missile. The latter is regarded as "the most sophisticated IR-guided AAM currently in existence and a decade ahead of current Sidewinder missiles."²⁶⁵ Malaysia will also receive the best avionics and weapons systems Russia has, and which have not yet been made available to its own air force. The

implications of that trend are far-reaching. As J.N. Mak writes from Malaysia,

In short, Russia's MiG sale to Malaysia has removed the stopper from the genie bottle where Washington is concerned. The technological superiority which the US traditionally relied on to punish recalcitrant upstarts could well be eroded by the introduction of superior Russian weapons systems.²⁶⁶

A second dangerous trend is Russia's recent announcement that it will offer Seoul high-tech missiles, fighter jets, and other weapons to defray \$1.47B of debts owed to South Korea. South Korea has previously expressed interest in such an arrangement in order to obtain systems comparable to those of the North.²⁶⁷ Given the size of Russia's debts and its inability to meet the interest payment, let alone the principal, the temptation to swap debts for weapons will be a very powerful one, having dangerous implications at home and abroad. These are only two of the reasons why it is necessary to act now to regulate, if not restrict, Russia's arms sales program.

Russia's arms sales program presents a number of threats to both Russia itself, U.S. interests, and allies. U.S. interests in regional nonproliferation of both conventional and NBC weapons are threatened by the loose policies of Russian arms and technology exports. Not only are high grade weapons being exported, often at fire sale prices, but also the means to make those weapons is going abroad with them. Additionally, these weapons may be used against our allies in the Near East, Gulf, and Asia. Worse yet they may be used against U.S. forces, especially CVBGs and air forces, deployed to defend those allies or other vital interests. Therefore, there is a direct correlation between these sales and threats to vital U.S. interests as defined by the Clinton administration in Asia and the Near East: namely nonproliferation and the creation of a durable Asian security system.

As far as Russia itself is concerned, we must remember that the democratization of Russia and its integration into the Western political order is another, perhaps even more vital, U.S. interest. The arms sales program threatens that interest

in several ways. The Korean arms sales program is perhaps the most visible or striking example of the fecklessness of the arms export policy and its dubious benefits for Russia. The problem with this policy is not that Russia is not entitled to sell arms abroad for currency or have its own viable military industry. To argue against those points in today's world would be churlish, foolish, and hypocritical. Rather, it is obvious that the rationales for the program and the expected gains are so out of proportion to the true facts that there appears to be a covert objective of its advocates. Arguably, the ulterior aim of its progenitors in industry and government is to abort or inhibit the demilitarization of Russia's economy and politics. Inasmuch as everyone acknowledges that conversion is fundamental to Russia's progress, the specious arguments that billions are to be made or that Russia is somehow recovering its diplomatic position in Asia by these means at little cost are belied by the facts of sales receipts and by examples such as Korea, Iran, and China. Similarly the U.S. Defense Intelligence Agency, other competent Western analysts, and Russian observers concur that in no way can arms sales fund the revival of the defense industry. As Geoffrey Jukes writes:

The experience of military sales has overall been discouraging; it provides no basis to support a military-industrial complex on anything like the past scale, and diversification or shutdown are the only choices open to most of it. No third option of successful cooperation with the military to influence policy-makers into major changes exists in present or currently foreseeable circumstances.²⁶⁸

Indeed, as we have seen, quite the opposite situation exists. On June 10, 1993, Gennady Yampolsky, Deputy Chairman of the State Committee on the MIC, and an advocate of arms sales, announced that Russia sold \$3B worth of arms in 1992 (a figure that is open to question given the subsidies we have revealed; the DIA and the Russian government gives figures of just under \$2B) and projected 1993 sales of \$2B, hardly the figures the MIC always claims it could raise. And his figures comport with official projections for the year.²⁶⁹

Abroad these sales also threaten Russia and its clients or friends, and major international interlocutors with real risks from North Korea, China, and Iran. Should Iran support the rebels in Tajikistan, for example, they could be getting Russian weapons to use against Russian troops there. In another case, the anti-ship missiles that Russia exhibited in 1993 at Abu Dhabi demonstrated the Russians' superiority in tactical missile propulsion, especially in integrated rocket/ramjet systems. As one commentator stated, "the only ray of hope is that Western electronics are better—at least, are supposed to be."²⁷⁰ Russian arms advertised for sale abroad could easily become, as noted above, the weapon of choice for substantially redistributing naval power abroad to the detriment not only of the United States but perhaps Russia, too, e.g., in the Pacific Ocean. This concern is particularly true regarding navies and anti-ship missiles of Russian manufacture, which explains as well why the Pentagon is interested in buying them.²⁷¹

To criticize this policy's foreign ramifications is not to denounce all sales. For example, the sale to Hungary of air defense missiles and fighters in return for Soviet debt; and forgiveness makes sense for Russia since it cannot pay the debts; and Hungary cannot buy Western equipment due to lack of foreign exchange, is certainly menaced by a lack of air defenses, and could develop better ties with Russia through this process. In addition, since East Germany produced the MIG-29, many ex-East German technicians could be employed on their maintenance in Hungary, easing Germany's economic problems. On the other hand, there are already reports that Slovakia (and perhaps Poland as well) wants to make a similar deal precisely because the Hungarian deal heightens its defensive concerns. That could develop into a dangerously spiraling arms race in Central Europe.²⁷²

Similarly the sale of \$300M of helicopters and BTRs to Turkey is clearly linked by Russia to a peaceful Turkish policy in Nagorno-Karabakh and to consolidating friendly ties with Ankara. But even here 80 percent of the deal is in exchange for debt and only \$15M will be paid in cash. And it is hard to see how Russia can hold Turkey to its pledge of using these

25 BTR-60s and BTR-80s, as well as the 20 MI Hip helicopters, only against the Kurds.²⁷³ If those considerations work out, the sales could be justified for facilitating those processes. But of all the dangers involved in the sales we have analyzed, the well-known profligacy and lack of control over the transfer of nuclear technology must be grounds for the greatest concern. The following example illustrates this, even though it involves conventional weapons.

In fall 1992, Nicaragua's Defense Ministry, under General Humberto Ortega, sold Soviet weapons to Peru and apparently Ecuador without Russian consent or prior notification. These sales violate international agreements and Moscow harshly reprimanded Nicaragua for selling these weapons for \$500M at a time when Managua claims that the change of government in 1991 and the end of the USSR absolves it from having to repay its obligations to Moscow.²⁷⁴ The implications of this transaction or other possibly nuclear ones, need not be spelled out.

Domestically the danger that this policy represents as an advertised source of funding for conversion is seen in the fact that the government is obliged to subsidize these industries even though it promotes these sales because the revenues earned abroad are nothing like what the MIC and official spokesmen claim. As Burbulis recognizes, the MIC wants to preserve its "industrial kolkhozes." They wish to own their firms to distribute profits but not to bear any commercial risk. Rather they run to the state to cover all losses with subsidies, loans and credits. This, he rightly notes, is a policy of communism, not market economics. But the defense industry is going in this direction whether one lets it sell as it please or organizes Kokoshin's and Glazyev's super oligopolies.²⁷⁵ Yet notwithstanding the meager results obtained to date, the advocates of arms sales are loudly pushing for more sales to China, the Middle East, Gulf States and Syria, former Warsaw Pact members, South Korea, and South Africa.²⁷⁶ The danger of this pressure, given the MIC's superior position in the political process, is that Russia will then validate states like Syria who believe Russia is so desperate to sell arms that they only have to sit tight in negotiations until Russia agrees to any

concessions.²⁷⁷ Other potentially dangerous customers, like Pakistan, wish to buy Russian arms, something that concerns India and could raise regional tensions in South Asia.²⁷⁸

Defense Minister Grachev's insistence that the armed forces would not accept or understand a civilian minister suggests, as do the reports on arms sales, that no civilian or civil institution fully controls the military or will soon be allowed to control it. At a U.S.-Russian meeting of generals and academics in February 1992 this point was made strongly with regard to arms sales. Nobody knew who is in control and it is not clear whether the dominance of the producer over the customer in that industry has yet been reversed. Moreover, there is no coherent strategy or policy for the short or long term on arms sales. Since Russia, desperate for cash, evidently will sell to almost anyone, it seems these observations are still correct.²⁷⁹ In addition, the general has insisted that Russia must still spend at least 10 percent of its GNP, if not more, on defense, even after reductions, thereby strengthening the MIC's power.²⁸⁰ Conversion also is taking place, brutally, not by plan. There are neither funds, nor control, nor authority over conversion. Reformers like Vitaly Shlykov, an acerbic critic of the military and Deputy Chairman of the Military Committee of the Russian Federation, already demand a Tsar for conversion.²⁸¹ Meanwhile, military industry carries on as before. In the first quarter of 1992, Russia appropriated 6.6B rubles for military orders, yet the MIC produced 20B worth of weapons. That led Shlykov to charge that the MIC was bartering with foreigners, using mobilization reserves, probably numbering billions of rubles, or borrowed money, and inter-industry credits, until it won a state bailout that is now taking place.²⁸² And there are reasons to believe this is still the case in 1993. Finally, he noted there were no plans to privatize military industry and civilianize it. As of mid-1993 the MOD plans indicate that privatization of those industries may mask a more sinister relationship of them with the state as we have seen above.²⁸³ As Richard Cupitt noted for Poland and Czechoslovakia, the revolutions of 1989 have forced these governments to eschew compelled conversion and to pursue it through an open policy process of bargaining, persuasion, and adaptation that includes arms sales.²⁸⁴ This is happening

in Russia but with much less openness and acceptance of the realities of the world arms market that work against big returns for Russia. Thus the failure fully to democratize and go to market economics in defense or in general is reflected in a policy process that gives prominence to some of the most negative special interests of the old regime and to a form of industrial organization that the government admits resembles those of Franco's Spain or the Generals' South Korea. As a result, the MIC's position is liable to become stronger, not weaker, over time with dangerous potential consequences for Russia and the world. As Alexander Konovalov warns:

Let us not forget that among the leaders of the August 1991 coup there were two representatives of the defense industry, Oleg Baklanov and Tizjakow. It looks that at least part of the defense industry leadership has tried to replace on the Soviet political scene the almost-dead Communist Party. It may be the first precedent in Soviet history when the industrial leg of the military-industrial complex has tried to get the political power which would correspond with its economic weight. That is why the successful conversion of the Soviet defense industry should be put among the other key aspects of European security.²⁸⁵

Arms sales policy, like every other national security issue in Russia, is intimately tied to the course of domestic policy and in turn influences it. Arms sales limit democratization, reform, and civilian control. But abroad, too, they portend dangerous prospects for Russia and erode confidence in its willingness to participate in a new world order. Arms sales' breadth and the consolidation of power in the hands of its most fervent supporters suggest strongly that the challenge of democratizing Russian politics and economics and of demilitarizing them is not being met and that new dangers await the United States in and from Russia.

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